



PSYCHIC DISTANCE AND CROSS – BORDER MERGERS AND ACQUISITIONS PERFORMANCE

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TESE DE DOUTORAMENTO EM GESTÃO

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Abstract

The purpose of this doctoral dissertation is to investigate the psychic distance hazard in cross-border mergers and acquisitions (CBM&As) performance. To address this issue we propose a compilation of three individual although complementary essays. The first one reviews the theories on firms' internationalization process, whereas the two others share the common goal of investigating the impact of psychic distance hazard on cross-border mergers and acquisition (CBM&A) performance from different approaches. The first essay is a bibliometric review of internationalization perspectives. The second essay provides a parsimonious conceptual model of the impact of managers' perception of psychic distance (PD) on CBM&As performance. The third essay presents an empirical study of CBM&As performed in 26 countries.

The first essay - *Different perspectives on internationalization research: A bibliometric review* - aims at providing a better understanding of the different internationalization approaches and of how they are interconnected. We examine the intellectual structure of internationalization research, its growth over time, the most used approaches, the works that have had the greatest impact, and the intellectual interconnections among authors. We conclude that there is no dominant approach in international business research, albeit the Evolutionary Model has been the most cited, especially one seminal paper—*“The internationalization process of the firm: A model of knowledge development and increasing foreign market commitment”*, by Johanson and Vahlne (1977).

The second essay - *Managers' perceptions of psychic distance and the performance of cross-border mergers and acquisitions: A conceptual model* - advances a conceptual model, hypothesizing the integrative impact managers' perceptions of the different variables of the psychic distance on CBM&As performance. We propose a conceptual model grounded on theory reinforced by exploratory interviews. All the interviewed managers agree with the theory-driven propositions that managers' individual characteristics, especially international experience, prior contacts with different cultures and experience and knowledge of different cultures are essential to minimize psychic distance hazards. Nevertheless, the exploratory interviews have suggested psychic distance effects may be different from those derived from theory which offer perspectives for future research.

The third essay - *The psychic distance hazards in cross-border merger and acquisition performance: An empirical study of CBM&A from 26 countries* – empirically investigates the effect of psychic distance on CBM&As by partially testing the conceptual model advanced in the second essay. We conduct an empirical analysis of the performance of 415 CBM&As between 2005 and 2012, involving acquirers from the United States and targets from 26 countries. Our findings suggest that psychic distance, as a whole, has a negative impact on CBM&As performance therefore only in the short-term there is a statistically significant negative impact whereas in the long-term no effect is statistically significant. Analyzing the different dimensions of psychic distance stimuli (PDS), we concluded that three individual items - differences in language, education and political systems – are also significant. We contribute to the research of the psychic distance hazard on CBM&As performance by identifying a different impact of PD on CBM&A performance in the short-term and the long-term: in the short-term there is a statistically significant negative impact whereas in the long-term no effect is statistically significant. Also, this paper contributes to a better understanding of the psychic distance hazards on CBM&As by breaking down the PDS developed by Dow and Karunaratna (2006) and testing the effect of each dimension on CBM&As performance, using the event study methodology.

As a whole, this doctoral dissertation offers three broad contributions to extant literature. On one hand, we focus on individual perceptions analyzing the psychic distance thus advancing the extant knowledge past the thoroughly scrutinized cultural distance effects. On the other hand, we offer a conceptual analysis of CBM&As ascertaining psychic distance still matters and it poses hazards to firms' operations. Finally we identify different effects of psychic distance over time, offering novel perspectives for further academic inquiry.

Keywords: Psychic distance, internationalization, cross-border mergers and acquisition, performance, bibliometric review, conceptual model, event study.

Resumo

A presente dissertação propõe-se investigar os efeitos da distância psíquica no desempenho de Fusões e Aquisições Internacionais (F&AIs). Para esse efeito optámos por uma compilação de três artigos, sendo que um apresenta a revisão de perspectivas de internacionalização e os outros dois visam o objetivo comum de investigar o impacto da distância psíquica no desempenho das Fusões e Aquisições Internacionais (F&AIs).

O primeiro apresenta uma revisão bibliométrica das perspectivas de internacionalização. O segundo fornece um modelo conceptual do impacto da percepção da distância psíquica no desempenho das F&AIs, por parte dos gestores. O terceiro artigo apresenta um estudo empírico do desempenho das F&AIs em 26 países.

O primeiro artigo – *Diferentes perspectivas sobre pesquisa de internacionalização: Uma revisão bibliométrica*. Propomos contribuir para uma melhor compreensão das diferentes abordagens da internacionalização e do modo como estão interligadas, examinando o seu desenvolvimento ao longo do tempo, bem como as abordagens mais utilizadas, os trabalhos que tiveram o maior impacto e as interconexões intelectuais entre autores. Concluímos que não se verifica domínio absoluto de nenhuma das abordagens em investigação de negócios internacionais, embora o Modelo Evolucionário tenha sido o mais citado bem como um dos artigos seminais “*The internationalization process of the firm: A model of knowledge development and increasing foreign market commitment*”, de Johanson e Vahlne (1977).

O segundo artigo – *As percepções da distância psíquica dos gestores e o desempenho de Fusões e Aquisições Internacionais: Um modelo conceptual* – propõe um modelo conceptual, fundamentado na teoria e reforçado por entrevistas exploratórias. Todos os gestores entrevistados concordam com as proposições derivadas da teoria de que as características individuais, sobretudo a experiência internacional, contactos anteriores com diferentes culturas, experiência e conhecimento de diferentes culturas, são essenciais para minimizar os efeitos da distância psíquica. Contudo, as entrevistas exploratórias sugerem que os efeitos da distância psíquica podem ser diferentes dos derivados da teoria, facto que oferece perspectivas para futura investigação.

O terceiro artigo – *Os efeitos da distância psíquica no desempenho das Fusões e Aquisições Internacionais: Um estudo empírico de F&AIs em 26 países*. Investigámos de forma empírica o efeito da distância psíquica nas F&AIs, testando de forma parcial o

modelo conceptual avançado no segundo artigo. Procedemos a uma análise empírica do desempenho de 415 F&AIs entre 2005 e 2012, envolvendo adquiridores dos Estados Unidos e empresas adquiridas em 26 países. Os resultados da nossa pesquisa sugerem que a distância psíquica no seu todo tem um impacto negativo no desempenho das F&AIs. Logo, apenas a curto prazo existe um impacto estatisticamente significativo, enquanto a longo prazo nenhum efeito é estatisticamente significativo. Analisando as diferentes dimensões dos estímulos da distância psíquica (EDP), concluímos que três das dimensões – diferenças de língua, educação e sistema político – são também significativos. Este estudo procura contribuir para uma melhor compreensão dos efeitos da distância psíquica sobre o desempenho das F&AIs e testar o efeito de cada uma das dimensões do EDP desenvolvido por Dow and Karunaratna (2006) no desempenho das F&AIs, utilizando uma metodologia de estudo de evento.

No seu conjunto, esta tese de doutoramento oferece três grandes contributos à literatura existente. Por um lado, focamo-nos nas perceções individuais de distância psíquica, alargando assim o conhecimento existente em relação aos efeitos da distância cultural anteriormente examinados em detalhe. Por outro lado, oferecemos uma análise conceptual do efeito da distância psíquica sobre F&Ais, verificando que a distância psíquica ainda é importante e representa riscos para as operações das empresas. Finalmente, identificamos os diferentes efeitos da distância psíquica ao longo do tempo, oferecendo novas perspectivas à academia para futura investigação.

Palavras-chave: Distância psíquica, internacionalização, fusões e aquisições internacionais, desempenho, revisão bibliométrica, modelo conceptual, estudo de evento.

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Chapter 1.

Introduction

During the last half a century, firms have increasingly become internationalized. Countries have made substantial progress integrating economically, technological developments have emerged to change the landscape of the competitive arena and all these transformations have contributed to what we usually call globalization – the increasing interdependence among countries and firms (Ghemawat, 2001). Globalization provides firms a broader and faster access to international markets. Thus, firms may envisage their internationalization taking into account the convergence of the markets as a result of the globalization (Levitt, 1983) or recognizing that firms need to adapt to a set of norms and rules that differ across markets (Ghemawat, 2007, Johanson and Vahlne, 2009; Azar and Drogendijk, 2014). Firms do business in an increasingly heterogeneous, complex and uncertain environment which warrant further enquiry (Johanson and Vahlne, 2009, Dow and Ferencikova, 2010).

Firms may select different strategies for growth and expansion of their operations. A number of firms opt for collaborative (both equity and non-equity) approaches which include organic growth, strategic alliances or joint ventures (both domestic and international), among others. However, a considerable number of firms pursue merger and acquisitions (M&As) operations for both domestic and overseas growth. M&A operations have a significant strategic impact on firms' performance (Laamanen and Keil, 2008) since once established these transactions are difficult to change and have long-term consequences for the firm (Capron and Pistre, 2002). M&As are thus widely researched, namely due to the considerable impact on firms' strategies, both from a theoretical perspective (see the overviews by Chi, 2000; Shaver, 2006) and from an empirical approach (overviews by Noe and Rebello, 2006; Kapcperczyk, 2009; Wan and Yiu, 2009). Nevertheless, research is still not consensual and the impact of M&As on firms' performance is controversial (Haspeslagh and Jemison, 1991; Very, 2004; Very and Gates, 2007). For instance, cultural differences are posited to have a negative impact on the firms' post-acquisition performance (Child et al., 2001), but cultural differences are also posited to have a positive impact on post-M&A performance (Morosini et al., 1998).

Operating in foreign markets means multinational firms face additional challenges compared to domestic firms. The differences arising from the international business environment are one major challenge, since firms and managers often fail to recognize them (Azar and Drogendijk, 2014). Differences between dimensions of the international business environment are often posited as “distances”: a larger distance is usually associated with larger differences. Arguably a key construct in International Business is psychic distance (Johanson and Wiedersheim-Paul, 1975) which describes the degree of ignorance of a firm about the characteristics of a foreign market. Thus, psychic distance (PD) is “the result of factors that prevent or hinder the flow of information between firms and the market” (Johanson and Wiedersheim-Paul, 1975, p. 307) and include examples such as “differences in language, education, business practices, culture, and industrial development” (Johanson and Vahlne, 1977, p. 24). Therefore, psychic distance arguably impacts the learning about the international markets, the internal HQ-subsidaries knowledge transfer as well as the environment-firm knowledge transfer (Minbaeva, 2007), and other strategic decisions such as the foreign market entry mode (Kogut and Singh, 1988). Hence, it is relevant to investigate the psychic distance at different levels, both at national-, firm-, and individual-level. The individual-level psychic distance is particularly interesting, since aspects such as education, cultural background, organizational culture, and previous international experiences may alter a manager’s perception of psychic distance (Dow and Karunaratna, 2006).

The “distance” metaphor has been criticized in International Business literature (e.g. Shenkar, 2001; Luo and Shenkar, 2011). Constructs such as psychic distance are criticized for being symmetric and disregarding different perceptions individuals might have of a particular country, and also by not taking into account the heterogeneity inside countries (Shenkar et al., 2008; Luo and Shenkar, 2011). To overcome these limitations scholars have advanced the concept of friction (Shenkar, 2001; Shenkar et al., 2008; Luo and Shenkar, 2011). Unlike distance friction takes into account who the actors are, what the context is and what the purpose of the cultural contact is (Luo and Shenkar, 2011). According to Shenkar et al. (2008, p. 911) “The metaphorical substitution is therefore also about switching from a positivist, functionalist thrust to an approach where the world is viewed as continuously enacted and reenacted, negotiated and

renegotiated, and subject to what Foucault (1979) calls the ramifications of governance, hierarchical ordering, and, most important, control.”

The “friction” metaphor – especially the cultural friction (Shenkar, 2001) – has some drawbacks. The use of friction instead of distance may overcome the problems of symmetry, linearity and the homogeneity within countries, since friction moves past abstract differences at country level to describe contact between two specific entities at firm level (Shenkar et al., 2008). Nevertheless a widely accepted methodology is not yet available, although there have been some attempts to operationalize the cultural friction construct (Luo and Shenkar, 2011), arguably since it is a relatively recent construct (Luo and Shenkar, 2011; Shenkar, 2012). On the other hand, psychic distance research has recently indicated the symmetry problem may also be handled by bilateral data collection (Håkanson and Ambos, 2010).

Therefore we opted to use the psychic distance construct for two key reasons. First and foremost the lack of widely recognized empirical methodologies for cultural friction operationalization (Shenkar, 2012). Second the psychic distance construct has been demonstrated to explain the differences between countries (Håkanson and Dow, 2012) and is able to overcome the symmetry weakness (Håkanson and Ambos, 2010). We incorporated this concern in the design of our empirical analysis to examine the psychic distance only from perspective thus avoiding the symmetry concerns.

The general aim of this doctoral dissertation is to investigate the psychic distance hazard in cross-borders mergers and acquisitions (CBM&As) performance. Albeit we may identify other theories which explain firms’ internationalization, the Evolutionary Model is arguably the most influential one – as we concluded in the exploratory bibliometric review. The Evolutionary Model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) has put forward three important contributions to IB research: the incremental process of internationalization; the establishment chain starting from exports to foreign direct investment; and the PD effect on internationalization. The incremental process of internationalization is widely recognized in international business research (Buckley, 2002; Ambos and Håkanson, 2014; Figueira-de-Lemos et al., 2011), especially the entry mode sequence (Ellis, 2008) and the effect of learning on market selection (Dow, 2000; Liang et al., 2011). Nevertheless, the effect of PD on the performance of higher resource-commitment

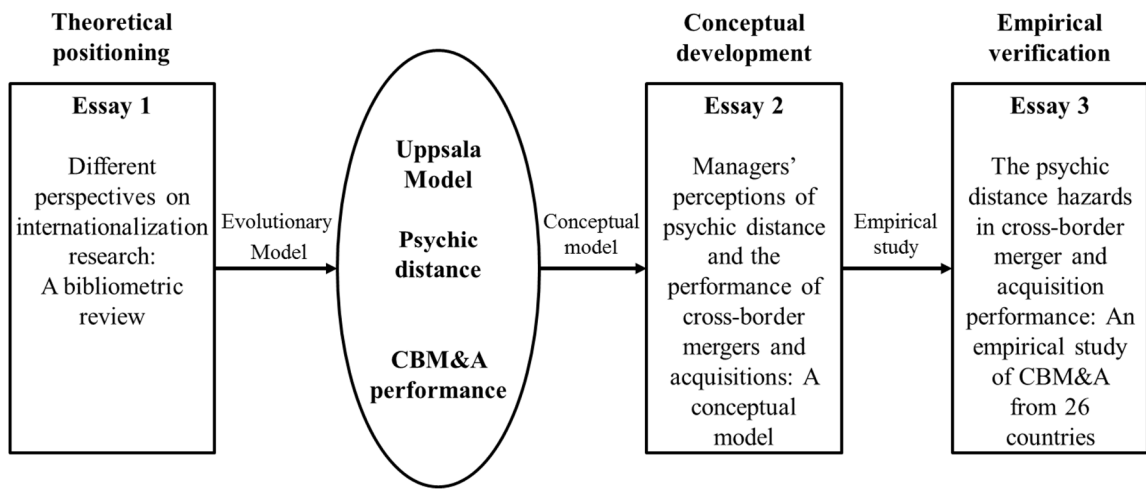
modes is not completely understood (Ambos and Håkanson, 2014; Yildiz, 2014) and warrants further research. Thus we delve into the key constructs of the Evolutionary Model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977), specifically the effect of PD on the highest resource commitment entry mode – CBM&As. Therefore, our contributions to international business research are threefold: first we review the different internationalization approaches by performing an exploratory bibliometric study; second, we analyze the hazards of the psychic distance on CBM&As performance by putting forward a conceptual model using the psychic distance stimuli (PDS) measure (developed by Dow and Karunaratna, 2006) which is based on seven dimensions – differences in language, religion, political system, industrial development, time zone, colonial ties and education; third, we empirically test the effect of psychic distance stimuli on CBM&A performance using a sample of 415 CBM&A in 26 countries using the event study methodology with data retrieved from the Security Data Corporation (SDC).

Research scope and purpose

In this research we present three main issues that form the core of this dissertation (see figure 1). Firstly, we perform an exploratory analysis to identify how the main theories on the internationalization of firms have been used in the extant IB research. We focus on the internationalization approaches to better understand the intellectual structure of the extant IB research, by unveiling the linkages between the theories and the issues researched. By revealing the intellectual structure of internationalization approaches research at this moment, we establish a baseline for tracking the evolution of research in IB issues. We followed Rugman et al.'s (2011) classification of the main internationalization theories and the core authors identified. We adapted the classification (Rugman et al., 2011) and we jointly analyzed the approaches which were theoretically proximate. This procedure arguably permits us a better understanding of the main approaches which explain internationalization. Therefore, we considered the following approaches: Market Power (Hymer, 1976), Evolutionary Model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977), Eclectic Paradigm (Dunning, 1977, 1981, 1988), Internalization & Transaction Cost (Williamson, 1975, 1981; Buckley and Casson, 1976; Rugman, 1980; Hennart, 1982, 1988;), Resource Based View (Barney, 1986, 1991), Institutional Theory (DiMaggio and Powell, 1983;

North, 1990; Scott, 1995; Kostova, 1999) and International New Ventures & Born Global (Oviatt and McDougall, 1994; Knight and Cavusgil, 1996). These core streams of research are then examined in an exploratory bibliometric review, encompassing about half a century of IB research to conclude that the Evolutionary Model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) is the most relevant in extant IB research.

Figure 1. Structure of the dissertation



Secondly, we integrated the conclusions of bibliometric review and select the most relevant approach to internationalization – the Evolutionary Model – to develop a conceptual model aimed at understanding the hazard of psychic distance on CBM&As performance. To explore these issues, we developed a conceptual model anchored on the extant literature and further reinforced it by comparing it to the five managers’ perceptions of firms operating in different industries that perform CBM&As in different markets. Our parsimonious model offers a complete and straightforward description of a complex question PD impact on CBM&As.

Finally, we performed an empirical study to partially test the conceptual model previously advanced by examining 415 CBM&As by U.S. firms in 26 countries performed from 2005 to 2012 to assess the psychic distance hazard on CBM&As performance. We used the event-study methodology as suggested by Brown and Warner (1985), and Campbell and colleagues (1997) to analyze the hazards of the psychic distance on CBM&As performance on the stock market performance of the acquiring firms using data from the Security Data Corporation (SDC). We used the formative

index based on five key dimensions of psychic distance stimuli taken from Dow and Karunaratna (2006) and Dow (2007) to determine ‘psychic distance’ hazard between the U.S acquirer firms and the target firms from other countries involved in the CBM&A, i.e. we analyze one of the directions of PD – taking into account its asymmetry (Håkanson and Ambos, 2010; Shenkar, 2001).

Research methodology

In the first essay, we conduct an exploratory bibliometric review using the most common bibliometric procedures of citations and co-citations analyses. The time frame of our analyses comprises the period 1970 to 2010, a forty one year period. The sample of articles for further scrutiny was collected from the six top tier international business (IB) journals (DuBois and Reeb, 2000; Inkpen, 2001; Pisani (2011); Harzing, 2013): *Journal of International Business Studies* (JIBS), *Journal of World Business* (JWB), *Journal of International Management* (JIM), *Management International Review* (MIR), *Asia Pacific Journal of Management* (APJM) and *International Business Review* (IBR). We identified 1,459 articles published over these 41 years, which constitute our sample.

In the second essay we develop a conceptual model to describe the impact of PD on CBM&A performance. Since psychic distance can be measured at an individual, firm and national level (Smith et al., 2011), in this study, we explore the individual perceptions of PD, since firms themselves are not capable of learning or understanding but the individuals within firms are the ones who carry out the activities (in this study CBM&A). According to Sousa and Bradley (2008) and Dow and Karunaratna (2006), the individuals are those who decide how their firms should enter international markets, thus being affected by the psychic distance hazard in their decision-making process. The effect of psychic distance on the individuals’ decisions holds huge importance for understanding firms’ internationalization options (Smith et al., 2011). According to Chatterjee et al. (1992, p. 321), “many organizations select their top management from the ranks of individuals who appear to best represent the value system of the majority”. Hence, we develop a theory-driven conceptual model analyzing the impact of managers’ perceptions of psychic distance on CBM&As and we further reinforce it with five explorative interviews of top-level managers who have performed CBM&A operations.

In the third essay, we perform an empirical study to partially test the conceptual model put forward in the second essay, by examining 415 CBM&As from U.S. firms in 26 countries. The data on CBM&As was retrieved from the SDC database – a common data source for M&A research in strategy, economics and finance (Ragozzino, 2009).

We measure the performance using the event-study methodology, as suggested by Brown and Warner (1985) and Campbell and colleagues (1997). The psychic distance hazard is measured using the formative index based on five key dimensions of psychic distance taken from Dow and Karunaratna (2006). Our hypotheses on the relation between psychic distance and its individual stimuli (differences in languages, religion, culture, economic development, political systems and religion) and CBM&As performance are tested using weighted least squares (WLS) regression analyses.

Summary and contribution of the papers

This section briefly summarizes the findings and contribution of the three essays included in this thesis.

Essay 1. “Different perspectives on internationalization research: A bibliometric review”.

The Evolutionary Model is the most used theory in IB research and the article - *The internationalization process of the firm: A model of knowledge development and increasing foreign market commitment* - by Johanson and Vahlne (1977) is the most cited work on internationalization theories research, followed by the book - *The future of the multinational enterprise* - by Buckley and Casson (1976) and the article - *Firm resources and sustained competitive advantage* - by Barney (1991). From 1970 to 1989, the Internalization and Transaction Cost Theory was dominant followed by Dunning’s Eclectic Paradigm. In the last decade of the 20th century, the Evolutionary Model have become dominant and doubled its relative importance in the first decade of the current century. The contribution of this study is to provide a valuable review for new scholars – both doctoral students and newcomers to the field of IB – that may find a thorough systematization of the core research streams and how they are intellectually interconnected. We thus examined their prevalence over time, the works with the greatest impact, and the co-citations network (to infer intellectual structure). The contribution aimed at with this study by analyzing in a systematic manner the literature on internationalization and ascertaining the current state of the art to provide a valuable

review for new scholars – both doctoral students and newcomers to the field of IB – allowing them to find a thorough systematization of the core research streams, how they are intellectually interconnected and ascertaining the current state of the art.

Essay 2. “Managers’ perception on psychic distance hazards on cross-border mergers and acquisitions performance: A conceptual model”

We sought to develop a simple albeit complete conceptual model to describe the impact of PD on CBM&As performance. The effect of differences between countries is widely researched and has yielded a myriad of constructs posited to impact firms’ international operations. However, the existing models are arguably complex and offer little assistance to managerial activity. Therefore we seek to contribute to a better understanding of the PD hazards on the performance of CBM&As by advancing a parsimonious conceptual model analyzing the impact of managers’ perceptions of the different dimensions of the psychic distance on CBM&As performance.

Essay 3. “The psychic distance hazards in cross-border merger and acquisition performance: An empirical study of CBM&A from 26 countries”.

We partially test the conceptual model advanced in essay 2 to analyze the impact of the psychic distance on CBM&As market-based performance. We found that, in the short-term, CBM&As involving firms from dissimilar countries perform worse than those between firms from psychically closer countries. In other words, greater psychic distance between two countries will worsen the acquirer firms’ performance in the short-term. However, in the long-term the PD has not presented a significant effect on CBM&A performance. Only three individual items - differences in languages, education and political systems - have a significant impact in CBM&As performance. This paper seeks to contribute to a better understanding of the psychic distance hazards on CBM&A performance and improve the knowledge about challenges to CBM&As, scrutinizing the effects of PD over time.

Structure of the dissertation

The dissertation comprises three interconnected essays (as showed in figure 1). Chapter 2 presents essay 1 “Different perspectives on internationalization research: A bibliometric review” and serves as the theoretical positioning of the doctoral dissertation. Chapter 3 presents essay 2 “Managers’ perception on psychic distance hazards on cross-border mergers and acquisitions performance: A conceptual model”

where we take the findings of essay 1 and advance a conceptual model grounded on the most influential internationalization theory. Chapter 4 presents essay 3 “The psychic distance hazards in cross-border merger and acquisition performance: An empirical study of CBM&A from 26 countries” where we partially empirically verify the conceptual model proposed in chapter 3. The final chapter “Conclusion” summarizes and presents the findings of each of the three essays and of the doctoral dissertation as a whole. We also summarize the contribution to the academy and the managerial implications. The conclusion also refers the limitations inherent to the three essays and puts forward some suggestions for future research.

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Chapter 2.

Different perspectives on internationalization research: A bibliometric review¹

Abstract

A wealth of research has addressed the internationalization of firms using different theories and conceptual perspectives. This paper examines the extant research on internationalization specifically delving into seven streams of research: Market Power, Evolutionary Model, Internalization & Transaction Cost, Eclectic Paradigm, Resource-Based View, Institutional and International New Ventures & Born Global. Methodologically we conduct a bibliometric review in six leading journals recognized for publishing International Business (IB) research, during a forty one year period, from 1970 to 2010. Using citations and co-citations analyses on a sample of 1,459 articles, we sought to better understand the internationalization approaches and how they are interconnected, by examining its growth over time, the most used approaches, the works that have had the greatest impact, and the intellectual interconnections among authors. We conclude that there is no dominant approach in International Business research, albeit the Evolutionary Model has been the most cited - in almost 26% of the extant research, specially the paper– “*The internationalization process of the firm: A model of knowledge development and increasing foreign market commitment*”, by Johanson and Vahlne (1977). We present a broad discussion and point out limitations and directions for future research.

Keywords: Internationalization approaches, international business journals, bibliometric review.

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2.1 Introduction

There has been a growing body of research addressed to the internationalization of firms under various theories and different perspectives. Several approaches have contributed to the understanding of international expansion by explaining complementary aspects of the phenomenon (Rugman et al., 2011). Different streams of International Business (IB) literature can be identified. For instance, theories seeking to explain the existence of the multinational enterprise (MNE) (Coase 1937; Hymer 1976; Buckley and Casson 1976; Williamson 1981; Dunning 1981) and theories explaining how firms internationalize – of which the work of Hymer (1976) on the Market Power Theory can be considered pioneer. Other approaches include the work of the Uppsala School (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) on the Evolutionary Model and the economic perspectives supported on the Internalization and Transaction Costs (Williamson, 1975; 1981; Buckley and Casson, 1976; Rugman, 1980; Hennart, 1982, 1988) and Dunning's Eclectic Paradigm (Dunning, 1977, 1981, 1988). In the 1990's other approaches have emerged to explain why and how firms internationalize. One sought to understand the internationalization of small and medium enterprises, extending to those firms that seem global since inception - International New Ventures & Born Global (Oviatt and McDougall, 1994; Knight and Cavusgil, 1996), and another delving inside the firm to identify both the resources held that could sustain internationalization and the resources firms may seek abroad - the Resource-Based View (Barney, 1991, 2002).

In this paper we seek to identify how the main theories on the internationalization of firms have been used in the extant IB research. We focus on the internationalization approaches to better understand the intellectual structure of the extant IB research, by unveiling the linkages between the theories and the issues researched. By revealing the intellectual structure of internationalization approaches research at this moment, we establish a baseline for tracking the evolution of research in IB issues. We followed Rugman et al.'s (2011) classification of the main internationalization theories and the core authors identified. We adapted the classification (Rugman et al., 2011) and we jointly analyzed the approaches which were theoretically proximate. This procedure arguably permits us a better understanding of the main approaches which explain internationalization. Therefore we considered the following approaches: Market Power

(Hymer, 1976), Evolutionary Model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977), Eclectic Paradigm (Dunning, 1977, 1981, 1988), Internalization & Transaction Cost (Williamson, 1975, 1981; Buckley and Casson, 1976; Rugman, 1980; Hennart, 1982, 1988), Resource Based View (Barney, 1986, 1991), Institutional Theory (DiMaggio and Powell, 1983; North, 1990; Scott, 1995; Kostova, 1999) and International New Ventures & Born Global (Oviatt and McDougall, 1994; Knight and Cavusgil, 1996). These core streams of research are then examined in a bibliometric review, encompassing about half a century of IB research.

Methodologically, we conduct a bibliometric review using the most common bibliometric procedures of citations and co-citations analyses. The time frame of our analyses comprises the period 1970 to 2010, a forty one year period. The sample of articles for further scrutiny was collected from the six top tier international business (IB) journals (DuBois and Reeb, 2000; Inkpen, 2001; Pisani (2011), Harzing, 2013): *Journal of International Business Studies* (JIBS), *Journal of World Business* (JWB), *Journal of International Management* (JIM), *Management International Review* (MIR), *Asia Pacific Journal of Management* (APJM) and *International Business Review* (IBR). We identified 1.459 articles published over these 41 years, which constitute our sample.

The results indicate a set of noteworthy findings. The Evolutionary Model is the most used theory in IB research being the article - *The internationalization process of the firm: A model of knowledge development and increasing foreign market commitment*, by Johanson and Vahlne (1977) the most cited work on internationalization theories research followed by the book - *The future of the multinational enterprise*, by Buckley and Casson (1976) and the article - *Firm resources and sustained competitive advantage* by Barney (1991). From 1970 to 1989, the Internalization and Transaction Cost Theory was dominant, followed by Dunning's Eclectic Paradigm. In the last decade of the 20th century, the Evolutionary Model becomes dominant and doubled its relative importance in the first decade of the current century.

The contribution aimed at with this study by analyzing in a systematic manner the literature on internationalization and ascertaining the current state of the art to provide a valuable review for new scholars – both doctoral students and newcomers to the field of IB – allowing them to find a thorough systematization of the core research streams and

how they are intellectually interconnected. We thus examined their prevalence over time, the works with the greatest impact, and the co-citations network (to infer intellectual structure).

This paper is organized in four sections. Firstly, we briefly review the internationalization approaches. Secondly, we show the method employed, explaining the bibliometric procedures, sample and sample collection. The third section comprises the empirical results. The concluding section examines the results, presents limitations and advances suggestions for future research.

2.2 Literature review

Over the last forty years firms' internationalization has been studied under various perspectives. Most notable, as put forth by Rugman et al. (2011) have been the following seven streams: Market Power, Evolutionary Model, Eclectic Paradigm, Internalization & Transaction Cost, Resource Based View, Institutional Theory and International New Ventures & Born Global. In the following sections we briefly review each of these streams.

2.2.1 The Market Power

Market Power Theory was one of the first foreign direct investment (FDI) theories to explain international production. This theory derived Hymer's (1976) seminal work posited that two conditions ought to be met for firms to carry out FDI. First, foreign firms must possess a countervailing advantage over local firms to make such investment viable. Second, the market for selling this advantage must be imperfect (Rugman et al., 2011, p. 7). According to Hymer (1976) firms, to own and control value-adding activities, must have monopolistic advantages sufficient to outweigh the hazards of foreignness because of the lack of knowledge on the local cultural, political and legal systems. The aim of locating production in the foreign markets was seen as to decrease the competition and increase entry barriers to other firms (Caves, 1971; Hymer, 1976).

For Dunning and Rugman (1985) one of Hymer's work major contributions was that FDI is a firm-level strategy decision rather than a capital-market financial decision. Horaguchi and Toyne (1990) argued that the genesis of the transaction cost theory may be traced to Hymer. According to the Market Power theory, FDI should only prosper in the absence of perfect competition, and Rugman et al. (2011) noted that FDI mostly occurs in imperfect markets.

2.2.2 The Evolutionary Model

The evolutionary model, also known as the Uppsala model, was pioneered by the works of Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977), later revisited in Johanson and Vahlne (2006, 2009). In essence, the Evolutionary Model advances that internationalization is a gradual process whereby firms accumulate knowledge on the foreign markets and on how to operate internationally. According to Johanson and Wiedersheim-Paul (1975) internationalization is a gradual process due to the differences between countries (or the psychic distance) that cause uncertainty (see also Cavusgil and Zou, 1994). Firms seeking to minimize uncertainties enter first closer countries (proximity evaluated as to the economic and cultural profile and geographic distance from home) and as they gain experience start moving to farther markets. The gradual internationalization may thus be understood whereby current internationalization is a function of past internationalization – that is, because firms learn to overcome the uncertainties of the foreign markets and they learn to operate abroad, their following foreign moves will include this knowledge. The entry modes selected will thus vary such that when entering uncharted territories, firms will tend to prefer using low involvement/low investment modes - exporting and licensing, or international joint ventures - and as they gain knowledge of those markets they evolve to more investment-intensive entry modes - FDI with wholly-owned subsidiaries (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977, 2006, 2009).

The larger the perceived psychic distance (PD) of home and host country, the riskier the performance in the foreign market and the more firms prefer to mitigate the risks involved through low involvement entry modes. Overtime firms benefit from accumulated experience and enter markets perceived to be more distant – more psychically distant markets (Johanson and Vahlne, 1977). Beyond the Uppsala model, psychic distance has been considered a central construct in the International Business field (Dow and Ferencikova 2010). Scholars have delved on the effect of PD on such different issues as the international performance of MNEs (Brouthers, 2002; Evans and Mavondo, 2002), acquisitions versus greenfield entry decisions (Harzing, 2002), foreign direct investment (Habib and Zurawicki, 2002), foreign market size and entry sequence (Ellis, 2008) and strategic effectiveness of MNEs (Evans and Mavondo, 2002).

2.2.3 The Eclectic Paradigm

The Eclectic Paradigm or OLI paradigm constructed by John Dunning (1977, 1981, 1988, 1998) is an approach to cross-border production through FDI and it explains the motivations (why), the location (where) and how the multinational enterprise develop its international operations. The core goal of the eclectic paradigm is to explain why there are multinational enterprises (MNEs) and why these companies may be comparatively more successful than domestic firms (Hymer, 1976; Dunning, 1988).

The paradigm was developed and extended into five versions and it is a framework used to rationalize on the decision to internationalize, and how to do it, requiring that we examine three core dimensions that influence the FDI: ownership (O), location (L) and internalization (I) advantages. These three advantages – ownership (O), location (L) and internalization (I) need to be simultaneously present for the MNEs prefer to carry out FDI compared to alternative modes of entry (Dunning, 1977, 1981, 1988). The combination of these three advantages can be explained by the scope and geographical distribution of MNCs (Dunning, 2000). To sum up, according to Dunning (1988), the MNEs procedure depends on the combination of three factors - Ownership or firm-specific, Location advantages and Internalization advantages. Despite some limitations “Dunning’s eclectic paradigm undoubtedly represents the most comprehensive framework to explain foreign entry mode choices and the economic efficiency implications thereof” (Rugman et al., 2011, p. 12).

2.2.4 Internalization and Transaction Cost Theory

The Internalization and Transaction Cost Theory (TCT) approaches have some commonalities in IB studies and we opted for considering them jointly. They are both based on two basic assumptions: (i) the bounded rationality of the economic agents, and (ii) the potential for opportunistic behaviors in the actions of the economic agents. These assumptions are foundational to the transaction costs (Williamson, 1981). Given the uncertainties and complexities of world economics and information asymmetries (Dosi, 1988), the rationality of individuals moves from the rational goals, such as maximizing profits, to non-rational actions. The limited rationality of economic agents means they are not able to set up contracts which can predict and establish corrective measures for all transactions that may occur in the future (Williamson, 1981). The basic

unit of analysis of the TCT is the transaction - an event that occurs when a good or service is transferred across a technologically separable interface, as part of a contractual relationship, in which it involves compromises among its participants. This relationship is inter- or intra-firm (Williamson, 1985). Three basic attributes define the transaction: frequency, uncertainty and specificity of assets involved (Williamson, 1981).

In IB studies the internationalization based on market imperfections has at least in part supported the emergence of the internalization theory, developed by the economists Buckley and Casson (1976) and Rugman (1981) and is closely connected with transaction cost economics that draws from Coase's work (1937). The emphasis is on efficiency in transactions between the different production units and their transaction costs (Williamson, 1975, 1980) as the rationale to justify whether to use the market or internalization for a particular activity. A rational analysis of benefits versus costs (Teece, 1986) determines the degree of internalization of the firm in the international markets. The presence of market imperfection, such as those arising from government intervention like tariffs and restriction of capital movements, is the basic assumption of internalization theory (Buckley and Casson, 1976).

The critical argument of the Internalization & Transaction Cost Theory is that firms aim at maximizing profit by internalizing their intermediate markets (such as the markets for intangible assets such as knowhow, technology and brands) both in national and international markets, when the free market is less efficient and/or more expensive (Rugman, 1981). According to Buckley and Casson (1976), Theory of Internalization proposes that: firms maximize profit in imperfect markets; as a result of market imperfections, there is a motivation to internalize markets; and internalization of markets across national boundaries generates the multinational enterprises (MNEs).

2.2.5 Resource-Based View

The Resource-Based View (RBV), posits firms as bundles of resources and establishes a logical relationship between resources, capabilities and competitive advantages, thus the resources become the basis for achieving competitive advantage (Grant, 1991). According to Penrose (1959), identified as pioneer of the RBV (Porter, 1991; Wernerfelt, 1984), the connections between firms' resources are crucial, since firms can create economic value through innovative and efficient management of

resources. Penrose (1959) identified causal relationships between resources and opportunities for growth and innovation of the firm, and underlines the importance of continuous maintenance of internal capacities of the firm. The firm and its resources are the main source of competitive advantage (Wernerfelt, 1984; Barney, 1986).

According to the RBV perspective the firms have their profits because firms have taken possession of extraordinary income from the market of scarce resources (Grant, 1991). The firms' different performance is explained by the heterogeneity of resources (Grant, 1991). Thus the basis of sustained competitive advantage are the resources and skills developed and controlled by firms (Peteraf, 1993). The more appropriate for the business the set of resources that the firm owns is, the better the firm is able to gain competitive advantage (Wernerfelt, 1984). The differences in results between firms arise from differences in resources and capabilities that each firm possesses (Barney, 1991). Specifically the resources that can sustain competitive advantage are those resources that are valuable, rare, difficult to imitate and not replaceable.

The internationalization of the firm is a common way to obtain new resources, for example through acquisitions and strategic alliances (Hitt et al., 1996; Das and Teng, 1998; Karim and Mitchell, 2000). Besides facilitating the development of new capabilities, acquisitions contribute to the creation of value since they can give firms increased economies of scale and/or scope, and increase their bargaining power with suppliers and/or customers (Barney, 1986, 1991).

2.2.6 Institutional Theory

The Institutional Theory posits that it is fundamental to contextualize firms' internationalization process, having as a basis the configuration of their relations of autonomy and dependence towards cultural and institutional values of the environments in which they operate (North, 1990). According to DiMaggio and Powell (1983), firms must be perceived as legitimate in order to achieve and sustain their competitive advantage. Firms should adjust their behavior to the rules of a particular environment to gain legitimacy (Scott, 1995). Therefore firms' structure should have a social, interactive and adaptive character which is essential for cultural alignment (Scott, 1995). Adaptation to the prevailing norms, values and ways of doing things is critical for obtaining legitimacy and support of the different agents in the markets where they operate (DiMaggio and Powell, 1983; Kostova, 1999).

In international markets firms face two opposite directions of isomorphism. One that is internal to the firm and consists in dealing with the institutional pressures within the firm. Another one that is external and consists in the adaptation to the host environment (Kanter, 1997). For DiMaggio and Powell (1983) isomorphism is the pressure on a firm to adapt to the other firms existing in the same environment. According to Meyer and Rowan (1977) firms need to understand the rules, norms and behaviors established by the institutions in different markets to gain legitimacy.

2.2.7 International New Ventures & Born Global

Some scholars posit firms do not gradually internationalize but have an international perspective from inception instead. This is the cornerstone of both International New Ventures and Born Global Theories and we opted to jointly analyze them. According to Oviatt and McDougall (1994, p. 49) International New Ventures (INV) & Born Global are “business organizations that, from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”. These firms distinguish from the others because their origins are international. The INV begin with a proactive international strategy. According to Casson (1982) the definition of the INV is concerned with value added, not assets owned. The development of international new ventures concept highlights the important role played by the founders in the process of internationalization of the firm. For Andersen and Buvik (2002), the concept of entrepreneur serves to unite the macroeconomics concepts with the concepts of strategy and internationalization of the firm. Thus, the internationalization process occurs with the action of an individual, the founder. If internationalization was not desired and performed by people with entrepreneurial behavior having resources and opportunities is not enough. International new ventures perspective assumes that the entrepreneur must be given control of resources, strategies and skills to create and exploit opportunities in different countries (Yeung, 2002).

According to Gabrielsson and Kirpalani (2004) Born Global firms emerge as a result of advanced technology and access to a borderless market. The Born Global firms begin their internationalization process shortly after start-up and sometimes even before operating domestically (Luostarinen and Gabrielsson, 2004). The Born Global firms normally within two years of the foundation of the firm. According to McKinsey and

Co. (1993, p. 9) the Born Global firms “view the world as their marketplace from the outset and see the domestic market as a support for their international business”. The importance of the Born Global firms are due to the global competitiveness, and firms are advised to seek for overseas’ markets in order to survive (Jones and Coviello 2005). These characteristics, especially the need for innovation and risk aversion are necessary in firms to expand their international operations and make of a field of international new ventures an interesting field for researchers (Zahara and Garvis, 2000)

2.3 Method

2.3.1 Bibliometric review

We performed a bibliometric review to assess the stock of accumulated knowledge on internationalization approaches research. According to White and McCain (1989, p. 119) “bibliometrics is the quantitative study of literatures as they are reflected in bibliographies. Its task, immodestly enough, is to provide evolutionary models of science, technology, and scholarship”. In other words, bibliometric review delve into the patterns or trends of what has been published and seek to make sense of large volumes of research (Daim et al., 2006; Ferreira et al., 2013). Bibliometric reviews are useful to ascertain the work that has been done in a particular discipline, discern patterns, identify the intellectual structure of a field of knowledge, uncover hidden knowledge of a discipline (Borgman and Rise, 1992), ascertaining the different research fronts that keep on emerging within a certain field and may provide tools for researchers to identify new research directions (Locke and Perera, 2001).

Several bibliometric reviews have already been carried out to study the literature of different areas and sub-areas of management research (Ma et al., 2009). Some studies have focused on a specific journal to scrutinize the types of papers published, their authors, time lag from initial submission to publication, university affiliation, types of papers (empirical or theoretical) and the citations (Phelan et al., 2002). Other studies, such as Acedo and Casillas (2005), also examined a single journal to explore the research paradigms of international business research. Other studies used a wider array of journals to find an emerging topic or an underexplored subject (Merino et al., 2006), the recent developments in a field (Werner and Trefler, 2002), the main authors in an area (Willett, 2007), the evolution of research in a specific topic (Ferreira et al., 2010), or the impact of a scholar (Ferreira, 2011).

Bibliometric procedures have further been employed to make sense of the intellectual structure of a field (Ramos-Rodríguez and Ruíz-Navarro, 2004; Shafique, 2013), the impact of a scholar (Etemad, 2004; Ferreira, 2011), the impact of a theory (Acedo et al., 2006), or the evolution of a given concept (Pupo and Martin, 2012). The impact of different journals is also the topic of some bibliometric studies (e.g., Baumgartner and Pieters, 2003), while other authors preferred focusing on the affiliations of authors (Podsakoff et al., 2008) or explored the intellectual structure and interdisciplinary breadth of knowledge management in its early stage of development (Ponzi, 2002).

According to Hofer et al. (2010) there is no standard procedure to perform a bibliometric review. In this study, we followed the procedure presented by Ramos-Rodriguez and Ruiz-Navarro (2004) in their analysis of the intellectual structure of strategic management and also the procedure by Zhenzhong and Kuo-Hsun's (2010) study of the status of contemporary knowledge management studies. Moreover, while a bibliometric study may resort to different document sources, such as published papers in refereed journals, doctoral and master dissertations and theses, papers presented at conferences, books and so forth (Ferreira, 2011; Ferreira et al., 2013), we only use the articles published in top journals, because these can be considered 'certified knowledge' - term commonly used to describe knowledge that has been submitted to the critical review of fellow researchers and has succeeded in achieving their approval (Zhang et al., 2010). For Callon et al. (1991) research articles play a fundamental role in the academic community.

Our study comprises three stages. First, we present the data collection procedures, second, the sample, and third the citation and co-citation analysis, that were the core procedures of analysis of the data.

2.3.2 Data collection procedures

In this paper we examine the accumulated knowledge on the main internationalization conceptual perspectives. To achieve this aim, the first stage involved selecting the sample for analysis. We identified the top six journals for publishing international business (IB) research following Anne-Will Harzing's (2013)²

² Harzing, A-W. (2013) Journal Quality List, Forty-eight Edition, Australia. Available for download at www.harzing.com/jql.htm

rankings and the journals SSCI impact factors. The reasoning behind this choice of the six journals may be summarized as follows: (1) by its nature, internationalization theories research is likely to be published in international business journals, albeit not exclusively; (2) the selected outlets are reputed as leaders among international business journals (Azar and Brock, 2008; Harzing, 2013) and are highly regarded by researchers; (3) these six journals reflect the current topics of IB scholarly interest; (4) they are usually available in databases at the majority of the universities; (5) they are the journals with the highest impact factor in the field. Table 2.1 presents the journals, some rankings and impact factors.

Table 2.1 Rankings and impact factor of the journals examined

Years available on ISI	Journal	Ranking ¹				Impact factor ⁶	Total citations ⁷	Total published ⁸
		Abdc 2010 ²	ABS 2010 ³	Cra 2010 ⁴	Ess 2012 ⁵			
2005/2011	IBR International Business Review	A	3	n.a	1	1.511	1,142	288
2008/2011	APJM Asia Pacific Journal of Management	B	2	3	2	3.062	331	113
1976/2011	JIBS Journal of International Business Studies	A*	4	4	0	4.184	40,120	1,761
1966/1990; 2008/2011	MIR Management International Review	A	3	2	1	0,754	2,129	2,006
1990/2011	JIM Journal of International Management	B	2	3.	n.a.	1.698	305	142
1997/2011	JWB Journal of World Business	A	3	n.a	2	1.986	5,260	432

Notes: (1) Harzing, A-W. (2013) *Journal Quality List*, Forty - eight Edition, Australia. (2) ABDC ranking: Australian Business Deans Council, Journal Rankings, List February 2010 (scale: A*, A, B, C). (3) ABS ranking — Association of Business Schools Academic, Journal Quality Guide, March 2010 (scale: 1, 2, 3, 4, 4*). (4) Cra ranking — Cranfield University School of Management, Journal Rankings, List February 2012 (scale: 1, 2, 3, 4). (5) Ess ranking — ESSEC Business School, Paris 2009/2012 (Scale: 0+, 0, 1, 2, 3). (6) source: <http://admin-apps.webofknowledge.com>. (7) The total citations indicates the total number of citations of articles published in the journal, according to ISI Knowledge. (8) The total published indicates the total number of articles – all categories included – published in the journal, from the founding up to 2010.

Albeit many other journals also publish IB research, these six are dedicated specialized journals in IB (Haddow and Genoni, 2010). Nonetheless, we acknowledge that we did not include journals from other sub-areas of management because we sought to ascertain the evolution and the use of internationalization theories which is arguably one of the core subjects of IB research. Although other journals occasionally publish papers on internationalization, they have different editorial focus and thus may bias our analyses. Moreover, journals not having an impact factor computed are not available on *ISI web of knowledge*.

Then, we delimited the observation period to 41 years - from 1970 to 2010. In essence this period includes the large majority of the publications. JIBS, the leading journal of the discipline was founded in 1970, and only MIR was founded prior to that date.

The third procedure entailed identifying the articles for the sample. The data was recovered from *ISI Web of Knowledge* (available at isiknowledge.com) by searching the database for the six selected journals and then by searching in the search option 'topic' for the following set of keywords: "internationalization theories"; "internationalization approaches" "internationalization perspectives "; "eclectic paradigm"; "evolutionary model"; "international new ventures & born global"; "market power"; "internalization & transaction cost theory", "resource based view", "institutional theory". We further screened all the articles published in the entire database of the six selected journals to guarantee all relevant articles were included. Moreover, we also read through the title, abstract and keywords of all the papers published in the six selected journals over the period defined.

2.3.2.1 Sample

The six journals published a total of 3,877 papers during the period 1970 to 2010. The search criteria presented above returned a sample of 1,459 papers. Using the software *Bibexcel*, we retrieved all relevant bibliometric information from the articles in the sample, such as the journal name, authors, title, volume, issue, year, research question, and references used. We additionally retrieved all citation and co-citation data for all 1,459 articles.

2.3.2.2 Procedures of analysis

The procedures of analysis involved citation and co-citations. A citation analysis is used to assess the frequency and distribution of citations throughout the sample of academic research (Ellis et al., 1994). The more a work is cited, the more important it is in a specific field of research (Tahai and Meyer, 1999). Citation analysis is often used to assess the extent to which a given work has been referenced by others and permits to observe trends (Hung et al., 2009; Kousha et al., 2011). In our paper we use citation analysis to identify highly cited works, on the assumption that the more cited a paper is, the greater its value or impact on the field (Ferreira et al., 2013; Shiau and Dwivedi, 2013) and may typify the core studies in an area of research (Hsiao and Yang 2011).

Citations analyses have already been carried out to study several issues. For example Butler (2008) and Haddow (2008) used citations as a measure of research impact, Holmes and Oppenheim (2001) performed a citation analysis to test the validity of the Research Assessment Exercise (RAE) and Haddow and Genoni (2010) used citation as a measure of research impact in a specific country.

Co-citation analyses are supported on a frequency count with which a given pair of works is jointly cited in other works (Rousseau and Zuccala 2004). To some extent we may thus recognize the internal structure of social networks (Wasserman and Faust, 1994). Articles often cited together are likely to have a connection (Rehn and Kronman, 2006; Rokaya et al., 2008; Hofer et al., 2010) and to help interpret the intellectual framework and the links between the different articles. For instance, according to Small (1980, 1999) co-citation analysis enables the understanding and mapping of the central subject structure of a literature, its cognitive relationships, paradigms, its conceptual networks, and its development over time. In our study, we considered the 25 most cited references and the references to the seven international approaches analyzed in this paper. This procedure is useful to assess the patterns of co-citations and to, perhaps, understand the relative importance of each work within the internationalization theories research

2.4 Results

Table 2.2 identifies the number of the articles per approach and per journal in the six selected IB journals. The Evolutionary Model was used almost in 26% of the 1,459 articles. The Internalization and Transaction Cost Theory followed with 23.24% of the articles, followed by the Resource Based View with 12.20% and the Eclectic Paradigm with 11.65% of the total of 1,459 articles in this study. As it might have been expected, due to its relative youth, the International New Venture & Born Global Theory was the least used, by only 110 articles (7.63%) of a total of 1,459.

Table 2.2 Description of the sample

Theory	APJM	IBR	JIBS	JIM	JWB	MIR	Number of publications	% of total
Market Power		22	83	15	16	17	153	10.49%
Evolutionary Model	4	84	180	29	41	41	379	25.98%
Eclectic Paradigm	1	25	114	6	14	10	170	11.65%
Internalization & Transaction Costs Theory	6	40	207	17	26	43	339	23.24%
Resource Based View	16	22	77	16	37	10	178	12.20%
Institutional Theory	8	15	54	18	22	13	130	8.91%
International New Venture & Born Global		27	42	6	29	6	110	7.53%
Total	35	235	757	107	185	140	1,459	100%

Source: Data collected from ISI Web of Knowledge. Authors' computations.

The evolution on the number of papers published using each of the theories, during the past four decades, is presented in Table 2.3 From 1970-1989, the Buckley's, Rugman's and Hennart's Internalization & Transaction Cost Theory was the dominant perspective, followed by Dunning's Eclectic Paradigm. However, in the last decade of the 20th century, the Internalization and Transaction Cost dominated research efforts, and Buckley's and Hennart's Theory lost its importance as a supportive theory in IB. From 1990-1999 the Evolutionary model was already the second most influential perspective. From 2000 to 2010, the Evolutionary Model became dominant (315 articles of 1,151), whereas the Internalization & Transaction Cost Theory continued the second most used. Also in the last decade, the Resource-Based View has gained importance to become the third most influential perspective, followed by the Institutional perspective, whereas Dunning's Eclectic Paradigm has lost influence.

Table 2.3 Evolution of the number of articles published using each theory

Theory	1970/1979	1980/1989	1990/1999	2000/2010	Total
Market Power		15	27	111	153
Evolutionary Model		7	57	315	379
Eclectic Paradigm		18	49	103	170
Internalization & Transaction Cost Theory	3	34	77	225	339
Resource-Based View			15	163	178
Institutional			1	129	130
International New Ventures & Born Global			5	105	110
Total	3	74	231	1,151	1,459

Source: Data collected from ISI Web of Knowledge. Authors' computations and analysis.

The data on these 1,459 articles was treated using two distinct softwares: *Bibexcel*, to perform citation and co-citation analyses, and *Ucinet* to draw the co-citations networks. *Ucinet* is a social networks software.

2.4.1 Citations analysis

According to Shiau and Dwivedi (2013) and Ferreira (2011) citations analysis permits us to determine the works that are referenced by the authors. Presumably the works that are more often cited are those that have the biggest impact on the subject (Hsiao and Yang 2011). Jointly, the 1,459 articles in our sample used a total of 106,950 references (an average of 71 references per article). Table 2.4 shows the 25 works with the highest number of citations. Johanson and Vahlne's (1977) article "*The internationalization process of the firm: A model of knowledge development and increasing foreign market commitment*" was the most cited with 693 citations. This is not surprising given that Johanson and Vahlne's (1977) article laid the foundation for the Evolutionary Theory, the most used theory in internationalization research over the past 41 years. The second position in this citation rank is occupied by Buckley and Casson's (1976) book "*The future of the multinational enterprise*", with 536 citations. In third, Barney's (1991) article "*Firm resources and sustained competitive advantage*", with 385 citations. It is worth noting that Dunning's Eclectic Paradigm and Johanson and Vahlne's Evolutionary Theory have three works on the top 25 most cited.

Table 2.4 Most 25 cited works on internationalization approaches research

Reference	C
Johanson, J. and J. Vahlne (1977), "The internationalization process of the firm: A model of knowledge development and increasing foreign market commitment", <i>Journal of International Business Studies</i> , Vol. 8, Nº 1, pp. 22-32.	693
Buckley, P. and M. Casson (1976), <i>The future of the multinational enterprise</i> . London: Macmillan.	536
Barney, J. (1991), "Firm resources and sustained competitive advantage", <i>Journal of Management</i> , Vol. 17, Nº 1, pp. 99-120.	385
Kogut, B. and H. Singh (1988), "The effect of national culture on the choice of entry mode", <i>Journal of International Business Studies</i> , Vol. 19, Nº 3, pp. 411-432.	377
Hymen, S. (1976). <i>The international operations of national firms: A study of direct foreign investment</i> , Cambridge, MA: MIT Press.	313
Dunning, J. (1988), "The eclectic paradigm of international production: a restatement and some possible extensions", <i>Journal of International Business Studies</i> , Vol. 19, Nº 1, pp. 1-31.	288
Johanson, J. and F. Wiedersheim-Paul (1975), "The Internationalization of the Firm: Four Swedish Case Studies", <i>Journal of Management Studies</i> , Vol. 12, Nº 3, pp. 305-22.	280
Johanson, J. and J. Vahlne (1990), "The mechanism of internationalization", <i>International Marketing Review</i> , Vol. 7, Nº 4, pp. 11-24.	279

Oviatt, B. and P. McDougall (1994), "Toward a theory of international new ventures", <i>Journal of International Business Studies</i> , Vol. 25, N° 1, pp. 45-64.	254
Kogut, B. and U. Zander (1993), "Knowledge of the firm and the evolutionary theory of the multinational corporation", <i>Journal of International Business Studies</i> , Vol. 24, N° 4, pp. 625-645.	249
Hennart, J-F. (1982), <i>A theory of the multinational enterprise</i> , Ann Arbor, University of Michigan Press.	221
Anderson, E. and H. Gatignon (1986), "Modes of foreign entry: A transaction cost analysis and propositions", <i>Journal of International Business Studies</i> , Vol. 17, N° 3, pp. 1-26.	212
Zaheer, S. (1995), "Overcoming the liability of foreignness", <i>Academy. Management. Journal</i> , Vol. 38, N° 2, pp. 341-363.	206
Hofstede, G. (1980), <i>Culture's consequences: International differences in work-related values</i> . Beverly Hills and London: Sage Publications.	203
Vernon, R. (1966), "International investments and international trade in the product cycle", <i>Quarterly Journal of Economics</i> , Vol. 80, N° 2, pp. 190-207.	202
Dunning, J. (1993) <i>Multinational enterprises and the global economy</i> , Reading, Mass, and Wokingham. England: Addison-Wesley.	187
Barkema, H., J. Bell and J. Pennings (1996), "Foreign entry, cultural barriers, and learning", <i>Strategic Management Journal</i> , Vol. 17, N° 2, pp. 151-166.	187
Gatignon, H. and E. Anderson (1988), "The multinational corporation's degree of control over foreign subsidiaries: An empirical test of a transaction cost explanation", <i>Journal of Law, Economics and Organization</i> , Vol. 4, N° 2, pp. 305-336.	176
Kostova, T. and S. Zaheer (1999), "Organizational legitimacy under conditions of complexity", <i>Academy of Management Review</i> , Vol. 24, N° 1, pp. 64-81.	169
Wernerfelt, B. (1994), "A resource-based view of the firm", <i>Strategic Management Journal</i> , Vol. 5, N° 2, pp. 171-180.	166
Hennart, J-F. (1988), "A transaction cost theory of equity joint ventures", <i>Strategic Management Journal</i> , Vol. 9, N° 4, pp. 361-374.	163
Dunning, J. (1980), "Toward an eclectic theory of international production: Some empirical tests", <i>Journal of International Business Studies</i> , Vol. 11, N° 1, pp. 9-31.	156
Cohen, M. and A. Levinthal (1990), "Absorptive capacity: A new perspective on learning and innovation", <i>Administrative Sciences Quarterly</i> Vol. 35, N° 1, pp. 569-596.	153
Williamson, O. (1985), <i>The economic institutions of capitalism: Firms, markets, relational contracting</i> . New York: Free Press.	151
Penrose, E. (1959), <i>The theory of the growth of the firm</i> . Oxford: Basil Blackwell.	150

Note: C is the absolute frequency, the number of times a reference was used.

Source: Data collected from ISI Web of Knowledge. Authors' computations and analysis.

The Born Global and International New Venture Theory is the most recent in this field of research interest. It could explain why only 7.53% of the 1,459 articles are about them (see Table 2.2) and the seminal works: "*A quiet revolution in Australian exports*", by Cavusgil (1994) and "*The Born Global firms: A challenge to traditional internationalization theory*", by Knight and Cavusgil (1996), are not among the 25 most cited.

2.4.2 Co-citations analysis

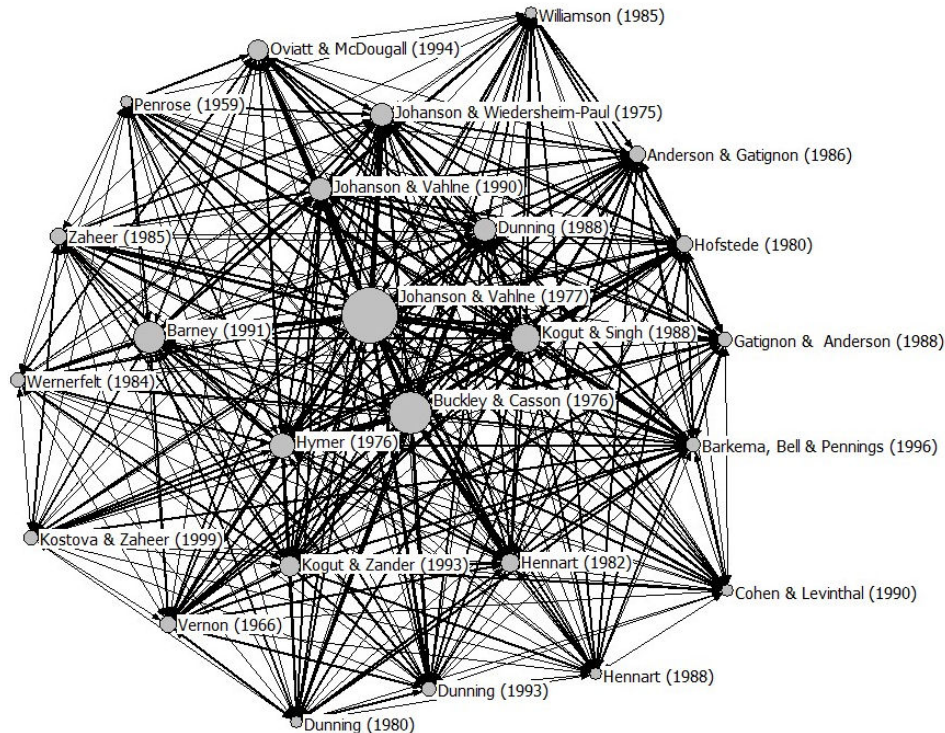
Co-citations analyses permit us observe the intellectual structure binding theories and works. We conducted two different co-citations analyses. First, we delved into the twenty five most used references of all 1,459 articles in our sample. Second, we constructed a co-citation network for each of the seven approaches, i.e., the most used works by articles using each of the seven approaches.

Figure 2.1 presents the twenty five most cited references in the 1,459 articles selected, which used a total of 106,950 references. The co-citations correspond to the links between the different works cited. We use the software *Ucinet* to draw visually the co-citation matrixes. In the figure, the thickness of the line connecting each pair of work represents the strength of the tie. Essentially, the thicker the line connecting a pair, the larger the number of co-citations, i.e., the larger the number of works that jointly cite them. This may be seen as a measure of the strength of the tie between these two works (Ferreira, 2011). Moreover, the software places the works in a dynamic manner such that works having had a core impact are in more central positions in the network. At the periphery are those works that albeit relevant, are less central to the entire set of works.

Considering the central position in the network of Johanson and Vahlne (1977), Buckley and Casson (1976), Kogut and Singh (1988), Vernon (1966), Hymer (1976) and Barney (1991) these are arguably the six most important works among the 1.459 works of the sample. These works deal with the challenges firms face when internationalizing, such as cultural distance (Kogut and Singh, 1988), access to resources (Barney, 1991), and possible explanations for the decision to internationalize (Vernon, 1966; Buckley and Casson, 1976; Hymer, 1976; Johanson and Vahlne, 1977). Examining the ties, we observe a strong tie linking the articles on the Evolutionary Model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; 1990) and on cultural issues (Hofstede, 1980; Kogut and Singh, 1988). On the outer layer of the co-citation network are works pertaining to the Transaction Cost Theory (TCT) (Williamson, 1985; Anderson and Gatignon, 1986; Gatignon and Anderson, 1988; Hennart, 1988), RBV (Penrose, 1959; Wernerfelt, 1984), and Institutional Theory (IT) (Zaheer, 1995; Kostova and Zaheer, 1999). Dunning's works on the Eclectic Paradigm (Dunning, 1980; 1993) are also to be found on more peripheral positions in the network and are thus arguably less important for the entire body of knowledge on

internationalization research. This conclusion must be taken with great care since we only depict the top 25 works.

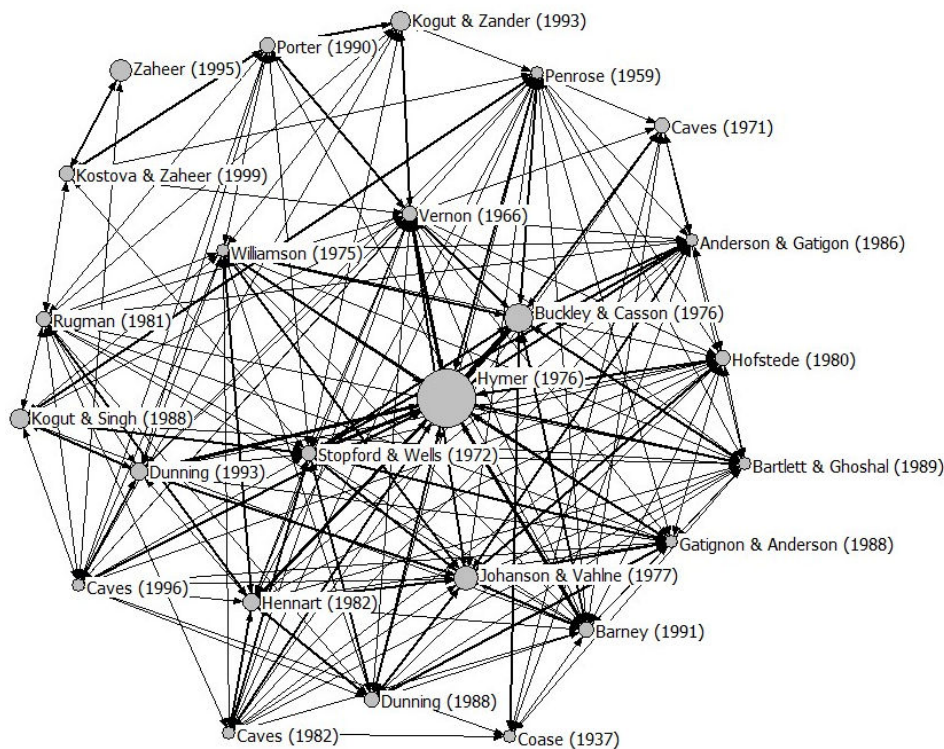
Figure 2.1 Co-citation network of the top 25 most cited articles



Source: Data collected from ISI Web of Knowledge. Authors' computations and analysis. Figure drawn with Ucinet.

Figure 2.2 presents the twenty five most cited references in the 153 articles about the Market Power Theory. Considering the central position in the network of Hymer (1976), Buckley and Casson (1976), Barney (1991) and Stopford and Wells (1972) these are the works that appear to have had the greatest impact, among the 153 articles identified on Market Power Theory. These works are connected with strong ties. On more exterior layers we may also observe several works on market imperfections (Caves; 1971; 1982; 1996; Rugman, 1981) which have a strong link with Hymer (1976). Other theoretical approaches may also be found in peripheral positions such as TCT (Coase, 1937; Williamson, 1975; Anderson and Gatignon, 1986; Gatignon and Anderson, 1988), Institutional Theory (Zaheer, 1995; Kostova and Zaheer, 1999) and RBV (Penrose, 1959; Barney, 1991).

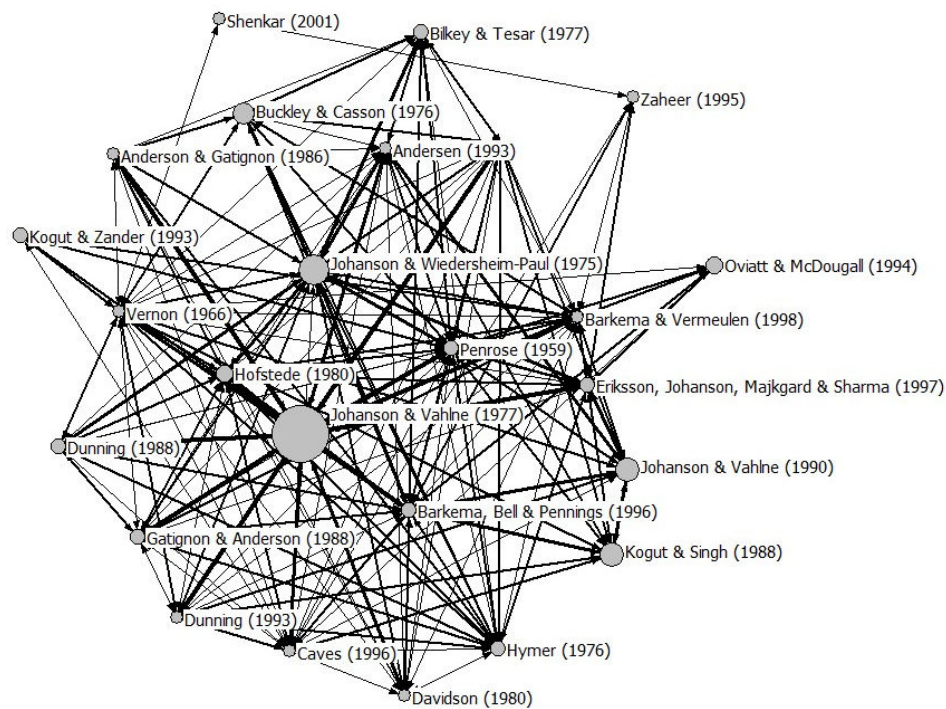
Figure 2.2 Co-citations network among the top 25 most cited articles about Market Power Theory



Source: Data collected from ISI Web of Knowledge. Authors' computations and analysis. Figure drawn with Ucinet.

Figure 2.3 presents the twenty five most cited references in the 379 articles about the Evolutionary Model. Considering the central position in the network of Johanson and Vahlne (1977), Johanson and Wiedersheim-Paul (1975), Hofstede (1980), Barkema and Vermeulen (1998) and Penrose (1959) these are arguably the five most important articles among the 379 articles about the Evolutionary Model. The strongest tie links the articles Johanson and Vahlne (1977) and Johanson and Wiedersheim-Paul (1975), followed by Johanson and Vahlne (1977) and Hofstede (1980). This is evidence that at the core of the network is the concern with incremental internationalization, which arguably allows overcoming the cultural differences (Hofstede, 1980; Kogut and Singh, 1988) and hinders firms' foreign operations. The incremental process of internationalization allows firms to learn (Barkema et al., 1996; Barkema and Vermeulen, 1998) and arguably to acquire resources (Penrose, 1959; Barney, 1991).

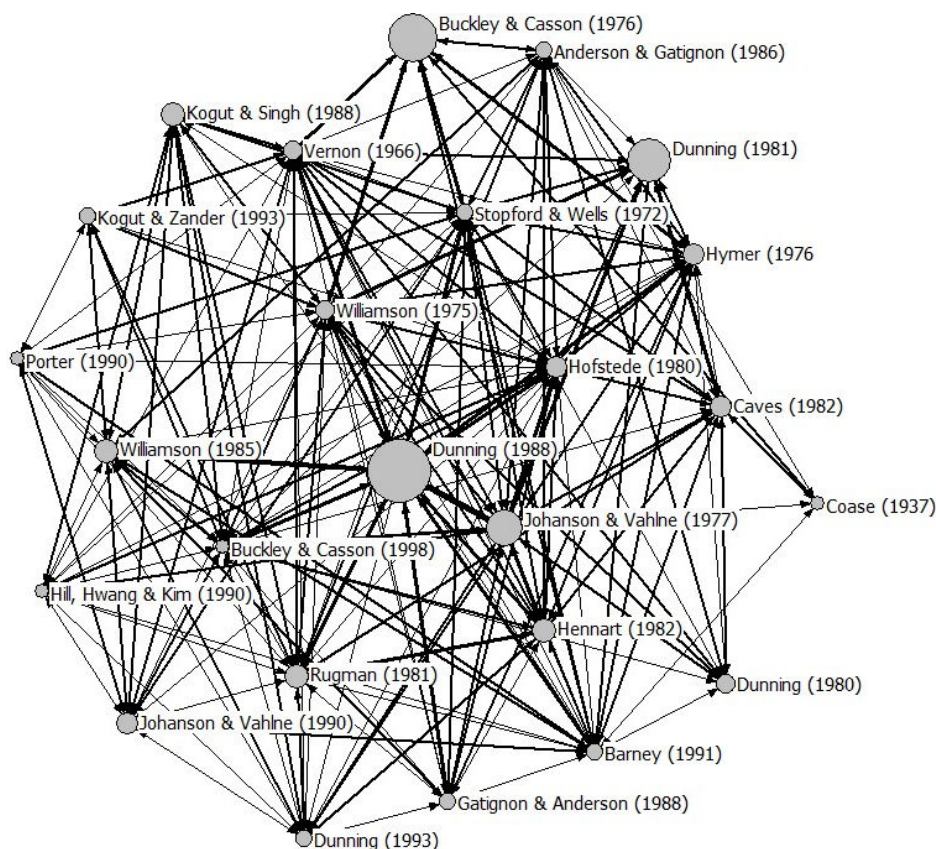
Figure 2.3 Co-citations network among the top 25 most cited articles about the Evolutionary Model Theory



Source: Data collected from ISI Web of Knowledge. Authors' computations and analysis. Figure drawn with Ucinet.

Figure 2.4 presents the twenty five most cited references in the 170 articles about Eclectic Paradigm Theory. Dunning (1988), Williamson (1975), Johanson and Vahlne (1977), Williamson (1985) and Hennart (1982) are the most central works. The strongest tie is found linking the three articles of Dunning (1988), Williamson (1975) and Johanson and Vahlne (1977). We identify other strong ties linking Dunning (1988) and Barney (1991) – arguably to explain the Ownership advantages of resources – Dunning (1988) and Hymer (1976) – possibly supporting the argument on Location advantages – and Dunning (1988) and Williamson (1975, 1985) – to defend the rationale of internalization.

Figure 2.4 Co-citations network among the top 25 most cited articles about the Eclectic Paradigm Theory

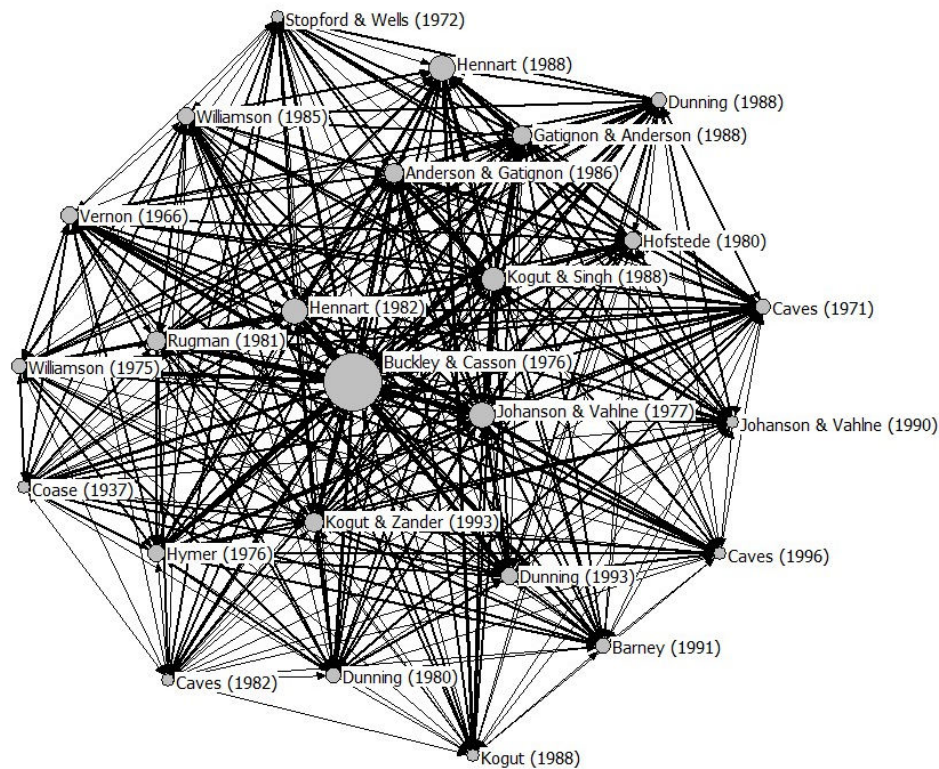


Source: Data collected from ISI Web of Knowledge. Authors' computations and analysis. Figure drawn with Ucinet.

Figure 2.5 presents the twenty five most cited references in the 339 articles about the Internalization & Transaction Cost Theory. Occupying the central position in the network are the works by Buckley and Casson (1976), Hennart (1982), Johanson and Vahlne (1977) and Rugman (1981). The strongest ties are found linking the works in the core of the network with Anderson and Gatignon (1986), Kogut and Zander (1993) and Kogut and Singh (1988). Firms operating abroad face specific challenges and choose the entry mode which allows them to transfer knowledge within the firm (Kogut and Zander, 1993) avoiding transaction costs (Anderson and Gatignon, 1986) for instance from differences in national cultures (Kogut and Singh, 1988). On more peripheral positions we may observe other important works on TCT such as Williamson (1975, 1985), Hennart (1988) and Coase (1937). Other theoretical perspectives may be found in the co-citation network, possibly these are works that establish some contrast with the

TCT rationale. We thus identify important ties to such works as Barney (1991), Stopford and Wells (1972), Vernon (1966) and Dunning (1980).

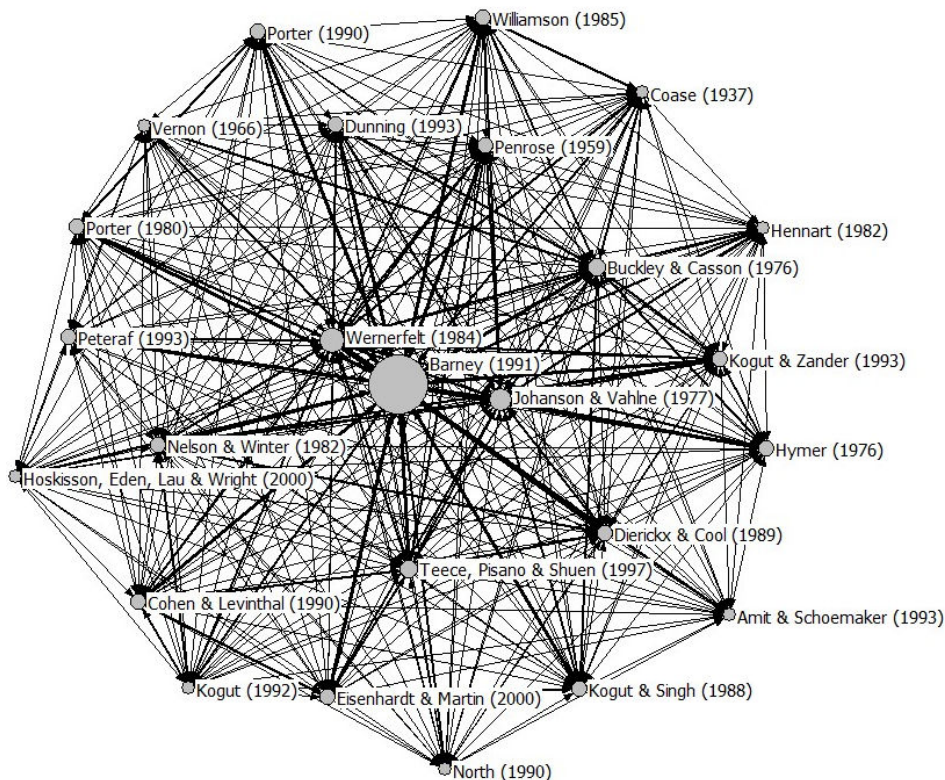
Figure 2.5 Co-citations network among the top 25 most cited articles about the Internalization & Transaction Cost Theory



Source: Data collected from ISI Web of Knowledge. Authors' computations and analysis. Figure drawn with Ucinet.

Figure 2.6 presents the twenty five most cited references in the 178 articles about the Resource Based View Theory. Considering the central position in the network of Barney (1991) and Wernerfelt (1984) these are the most important articles. Other seminal articles in constructing the RBV are identified in this network, such as Penrose (1959), Dierickx and Cool (1989), Peteraf (1993) and Amit and Schoemaker (1993). Works on the variants of RBV such as Knowledge-Based View (Cohen and Levinthal, 1990; Kogut and Zander, 1993) and dynamic capabilities (Teece et al., 1997; Eisenhardt and Martin, 2000) are included in the intellectual structure of the topic.

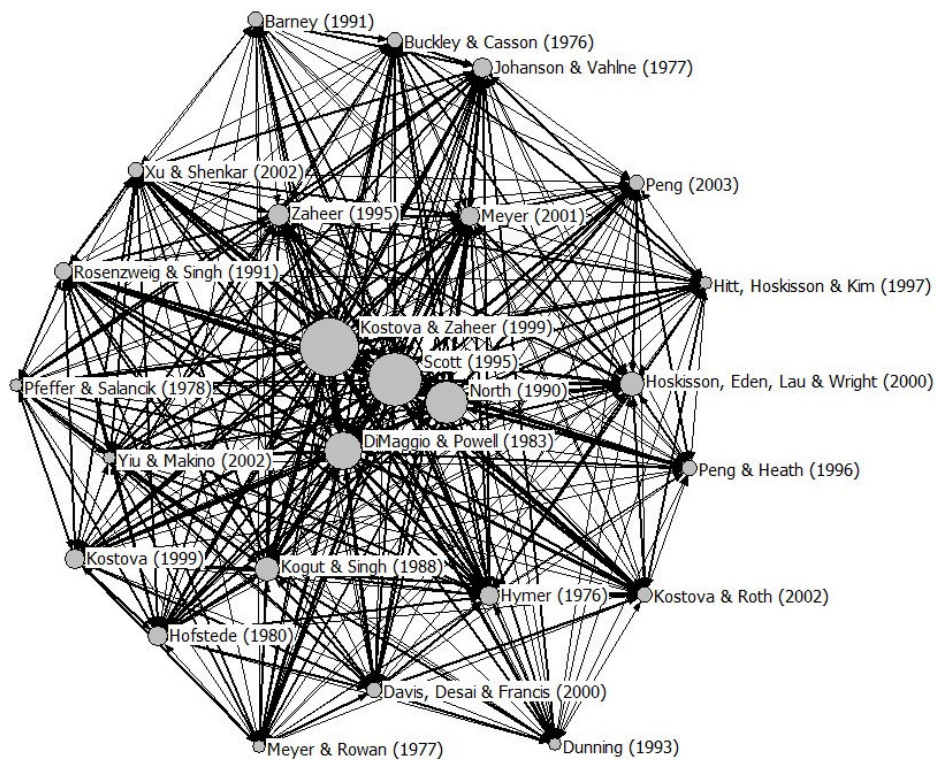
Figure 2.6 Co-citations network among the top 25 most cited articles about the Resource Based View Theory



Source: Data collected from ISI Web of Knowledge. Authors' computations and analysis. Figure drawn with Ucinet.

Figure 2.7 presents the twenty five most cited references in the 130 articles about Institutional Theory. In the more central positions are the works by Kostova and Zaheer (1999), North (1990), Scott (1995) and DiMaggio and Powell (1983). Other conceptual works that have been paramount to institutional theory may be found in the network such as Meyer and Rowan (1977), Rosenzweig and Singh (1991), Zaheer (1995), Kostova (1999) and Peng (2003). Among the most referenced we may also identify some empirical works of Institutional Theory such as Davis et al. (2000), Meyer (2001), Yiu and Makino (2002).

Figure 2.7 Co-citations network among the top 25 most cited articles about Institutional Theory



Source: Data collected from ISI Web of Knowledge. Authors' computations and analysis. Figure drawn with Ucinet.

Figure 2.8 presents the twenty five most cited references about the International New Venture & Born Global Theory. Considering the central position in the network of Oviatt and McDougal (1994), Autio et al. (2000), Knight and Cavusgil (1996), Zahra et al. (2000) and Johanson and Vahlne (1977, 1990) these are most important works. This approach posits firms have international operations from their inception (Oviatt and McDougal, 1994, Autio et al., 2000) whereas the Evolutionary Model posits an incremental process in internationalization (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; 1990). Therefore it is not a surprise to find at the core of the network the key works on both perspectives, arguably to contrast the approaches. On more peripheral layers of the network are works on social networks and Evolutionary Model of internationalization (Coviello and Munro, 1997; Coviello and McAuley, 1999; Jones and Coviello, 2005) and also other references on born global firms (e.g., Madsen and Servais, 1997; Moen and Servais, 2002; Rialp et al., 2005).

methodical analysis of the internationalization theories, specifically their impact, prevalence over time and the main intellectual connections, therefore opening new avenues for future development of internationalization research. This study may prove useful for newcomers to the IB field since it offers a depiction of the current stock of knowledge on internationalization research and its intellectual structure. The systematic examination of the current state of the art is particularly useful for scholars to expand on current knowledge and overcoming new problems and challenges.

A number of results warrant further discussion. First, the analysis of the 1,459 articles on the different internationalization approaches does not permit us to conclude that there is a dominant perspective in international business research. In fact, we identified some shifts over time and also that, to at least some extent, several of these approaches have been highly connected intellectually. This finding is reasonable, since science and knowledge evolve incrementally, building upon prior studies. It is also reasonable, since there are actual similarities and complementarities among theories.

Over the entire time frame of our study, the Evolutionary Model is the single most used theory and the article “*The internationalization process of the firm: A model of knowledge development and increasing foreign market commitment*”, by Johanson and Vahlne (1977) is the most cited work. This is followed by Buckley and Casson (1976) book– “*The future of the multinational enterprise*” (see also Ferreira et al. 2012), and the book “*The international operations of national firms: A study of direct foreign investment*”, by Hymer (1976). How do these apparently distinct streams relate? The Evolutionary Model posits the majority of the firms that expand their activities into the foreign markets are those whose internal markets are too small to provide scale advantages and to gain efficiency in their production. On the other hand, Internalization Theory and Transaction Cost Theory (TCT) offer complimentary perspectives of the MNE and explain why firms expand abroad. Both theories assume that markets are imperfect and multinational enterprises (MNEs) are used to overcome these shortcomings. The TCT considers the hierarchy as a means used by the MNEs to eliminate transaction costs (Hennart, 1982).

Notwithstanding its widespread use, the Evolutionary Model is often criticized. Some researchers consider the model to be deterministic as it seeks to explain the internationalization process only taking into account the time elapsed and disregarding

the environmental changes (Whitelock, 2002). Others criticize this theory and advocate that globalization, the trade liberalization, the growing use of information technology and the dissemination of English as the business language have diluted the psychic distance hazards and firms are now better able to export to countries with larger psychic distances as a result of market opportunities (Vahlne and Nordstrom, 1990; Dunning, 1995). According to Welch and Loustarinen (1988) the Evolutionary Model disregards two important features: How the internal internationalization process has reinforced the firm's external position; and how firms achieve the complexities of the internationalization in its external internationalization process. Despite its inadequacies, the Evolutionary Model is still the best explanation of the internationalization of the firms (Reid, 1981; Czinkota, 1982; Ferreira et al., 2012).

We considered Internalization Theory and Transaction Costs Theory as a single approach. Although there are many similarities – for example Hennart (1991) interchangeably uses the terms Internalization Theory and TCT – there are some differences. According to Hennart (1982, 1991) and Buckley and Casson (1976), the internalization is one way to reduce transaction costs. By contrast, the Internalization Theory emphasizes that hierarchical relations are not the only way to solve the problems associated with the costs of internal management of an organization. The underlying idea is that the managers of the subsidiaries have a better knowledge of local conditions than the Headquarters (HQ) which allows them to reduce internal costs of management. Internationalization of firms is therefore seen as a manner to maximize the power of monopoly by the Internalization theory whereas TCT views internationalization of firms as a way to reduce transaction costs. In sum, an MNE will expand to international markets when it is capable of organizing the interdependencies between agents in different countries more efficient than the markets. Thus, from the perspective of transaction costs the emphasis is given to the comparison of costs and benefits from organizing interdependencies internally, in-house, or in the markets.

Institutional theory is used by different disciplines and in different organizational contexts. Institutional theory research involves delving into elements such as social norms, cultural values and people's behaviors (Karlsson and Honig, 2009; Svendsen and Haugland, 2011). According to Dacin et al. (2001) the wide range of different disciplines using Institutional Theory make diverse assumptions which lead to diverse

conceptualizations of institutions. This may arguably ensue inconsistent hypotheses which may hinder the institutionalization of institutional theory (Tolbert and Zucker, 1999). It is therefore paramount to understand the directions of institutional theory research to legitimize its application and avoid theoretical fragmentation. The advancement of the institutional research calls for an integrated analytic framework of institutions (Zhu et al., 2010).

More recently the gradual perspective of internationalization has been challenged and novel explanations have emerged to explain firms' internationalization behaviors. For instance, the International New Venture & Born Global approaches posit firms to have international operations from their inception. This is arguably the result of an increasingly complex and volatile competitive landscape in an interconnected world. Born global firms have a significant percentage of its sales in overseas markets since its origin, not following the pattern of "stages" advocated by Evolutionary Model of Uppsala. According to Cavusgil (1994, p. 18), the emergence of the born global firms "reflects two fundamental phenomena of the 1990: 1. Small is beautiful. 2. Gradual internationalization is dead". The international theory of International New Ventures & Born Global may, however, be consistent with the revised Uppsala model (Johanson and Vahlne, 2009) which posits the internationalization of the firms depends on the their network position that allow them to establish cooperative agreements to obtain finance, resources and detect business opportunities in foreign markets. Therefore, if a new venture is part of a social network it may have global operations from the start. The International New Ventures & Born Global Theory is the least used theory arguably because it is the most recent and still underdeveloped compared to the others presented in this study. It is however expected that it becomes more developed and used, since the 'born global' phenomenon is becoming a reality. With both market and production globalization and complexity of the markets, the International New Ventures & Born Global theory will arguably be at the core of IB research.

To conclude, the international business literature has been dispersed over time and there is no general undisputed internationalization theory. The different perspectives offer incomplete explanations of firms' internationalization patterns. Some approaches offer partially overlapping perspectives, others are complimentary, and others even are contradictory and mutually exclusive. Some authors, such Rugman and colleagues

(2011) considered the internationalization theories as incompatible, although we may identify some interconnections between the different approaches that explain the internationalization process. For example, the main difference between the Internalization and Market Power approaches is the motivation for internationalization. For the Market Power Theory internationalization is perceived as a desire to increase the market power of the firm, while the motivation for the Internalization Theory is posited to be the minimization of coordination costs between the different foreign markets. On the other hand, for the Resource Based View perspective the internal resources of the firms are crucial for the internationalization of firms (Barney, 2002) and firms internationalize to leverage their resources. Therefore, we may perceive a connection between RBV and other approaches. For instance, the workers' knowledge (Barney, 1991) and the social networks that support the internationalization (Johanson and Vahlne, 2006) may be considered as internal resources which firms may use to explore or exploit abroad and in the OLI framework the internal resources (specific assets) are also crucial in the internationalization process (Dunning, 1980, 1988).

Limitations and future research. This study has several limitations worth discussing. Some are typical of a bibliometric review. Namely the fact that the research design restricts the study to only the top six higher stature IB journals. Other journals may also delve into internationalization issues using several theoretical lenses and approaches. It is possible that scholars from other fields such as economics, accounting, and entrepreneurship may publish research using international theories on other management journals. However, we believe our sample is representative of the “mainstream” in international business research. Nonetheless, our study is not exhaustive and future research may examine how different fields of management deal with the different theories by expanding the sample to other journals.

Another limitation emerges from using *ISI Web of Knowledge* as a source of the data. Although this is one of the most important indexing services, not all journals are included, especially in International Business research. Future studies may also enlarge the sample to comprise sources such as conference proceedings, books, doctoral theses and especially other indexing services (e.g., SCOPUS, EBSCO and Google Scholar). Furthermore, our bibliometric study did not use any statistical modelling of some sort. We intentionally proceeded with a descriptive analysis that underpins a large scale

literature review. Future research may use statistical models and other quantitative methods and perhaps seek to examine not only the accumulated knowledge, but also to understand what is the state of the art on this topic.

2.6 Concluding remarks

This study presents a large amount of data on the extant internationalization research that may be used to identify gaps for further research and to better understand the intellectual structure of international business research. Furthermore, this study marks a reference point that allows to understand the evolution and use of the different internationalization approaches. It is worth mentioning the importance of uncovering the networks linking authors and theories using co-citation networks, since a single model is unlikely to represent the international trade and investment patterns of the 21st century and certain industries are better explained by the use of more than one theory or of a specific theory.

2.7 References

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Chapter 3.

Managers' perceptions of psychic distance and the performance of cross-border mergers and acquisitions: A conceptual model³

Abstract

This article propose a conceptual model to shed light on the complex issue of the impact of managers' perception of psychic distance (PD) on cross-border mergers and acquisitions (CBM&As) performance, delving into the perceptions of different dimensions of psychic distance on CBM&As performance. Psychic distance must be analyzed at the individual level, since only the individuals within the firm perceive psychic distance hazard. Therefore this paper seeks to contribute to a better understanding of the psychic distance hazards on CBM&As performance by advancing a parsimonious conceptual model. We hypothesize the impact of managers' perceptions of the different dimensions of the psychic distance on CBM&As performance, as well as other elements such as managers' individual characteristics, especially international experience, prior contacts with different cultures and experience and knowledge of different cultures, which arguably minimize psychic distance hazards. The findings of this study may be useful both for managers of firms that aim at internationalizing and for those who have been finding difficulties in managing CBM&As due to differences between home and host countries.

Keywords: Psychic distance, managers' perception, cross-border M&As, conceptual model, performance, internationalization.

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3.1 Introduction

Mergers and acquisitions (M&As) are one of the most used entry modes in international markets (Shimizu et al., 2004). M&As have received increasing attention from researchers of several academic disciplines such as international business, strategic management and industrial economics (Ferreira et al., 2014). Notwithstanding this scholarly attention, the understanding of M&A is still very limited and largely inconclusive, for instance in what pertains the effects on firms' performance (Morosini et al., 1998; Evans and Mavondo, 2002; Shenkar et al., 2008; Chang et al., 2012) and the high failure rates of M&As (Slangen, 2006; Halebian et al., 2009; Hitt, et al., 2012; Gomes, 2013). According to King et al. (2004, p. 198) "despite decades of research, the impacts of the financial performance of firms engaging in M&As activity remain largely unexplained". Furthermore, the empirical research has either produced contradictory results (Stahl and Voigt, 2008) or has been difficult to compare because of differences in how performance was measured (King et al., 2004).

Firms' internationalization may be considered as an incremental process. Initially, firms select markets less psychologically distant, which allow them to learn and gain experience in carrying out international operations (Johanson and Vahlne, 1977; 2009; Bouthers and Hennart, 2007). Johanson and Wiedersheim-Paul (1975) and Kogut and Singh (1988) argued that uncertainty about foreign markets is the degree of ignorance of a firm about the characteristics of a foreign market, i.e., psychic distance. Psychic distance (PD) is "the result of factors that prevent or hinder the flow of information between firms and the market" (Johanson and Wiedersheim-Paul, 1975, p. 307). The effect of psychic distance poses many unanswered questions concerning for instance why and how much firms learn about the international markets and the transferability of knowledge, from the environment to the firm and internally between the subsidiaries and the headquarters (Minbaeva, 2007).

Several researchers have argued that firms that undertake CBM&As are increasingly facing hazards in international markets, because of psychic distance (Shenkar et al., 2008). In this essay we aim at understanding the impact of managers' perception of psychic distance on CBM&A performance. Analyzing this question involves studying managers' responses to the problems caused by psychic distance. To explore these issues, we review the extant research on psychic distance and develop a

tentative theory-driven model. We then conduct five exploratory non-confirmatory interviews with managers of firms that have conducted CBM&As in several different markets and are from five different industries: General building contractors, Plastics product manufacturing, Computer and data processing services, Softwood veneer and plywood and Pharmaceutical preparations. These five managers closely interacted with different environments and faced cultural surprises in their daily routine, especially when performing CBM&As.

Our study contributes to extant International Business literature by advancing a conceptual model to shed light on the complex issue of the impact of managers' perception of psychic distance on CBM&As performance, delving into the perceptions of different dimension of psychic distance on CBM&As performance. Furthermore, the exploratory interviews have suggested some divergences between theory and practice thus revealing a path for possible future research. Thus armed with the insights both from theory and practice we advance a parsimonious albeit complete conceptual model describing the effect of psychic distance perceptions on CBM&A performance, also including managers' individual characteristics which may minimize their psychic distance perceptions.

This paper is organized as follows. First, we review the core concepts of psychic distance and cross-border mergers and acquisitions. Second, we perform five explorative interviews to strengthen our theoretical review and build theoretical propositions that will allow us to present a conceptual model linking the managers' perceptions on the different dimensions of psychic distance with CBM&As performance. We conclude with a broad discussion of our findings, confronting our data with the extant research on psychic distance and CBM&A. Finally we clarify some limitations and suggest avenues for future research.

3.2 Literature review and research framework

3.2.1 Psychic distance

The concept of psychic distance was first mentioned by Beckerman (1956) as a set of factors that create a sense of dissimilarity between countries. Later, Johanson and Wiedersheim-Paul (1975, p. 307) defined psychic distance as those “factors preventing or disturbing the flow of information between firms and market”. For Fletcher and Bohn (1998, p. 49) psychic distance is an individual phenomenon because it is associated to

“the way the individual sees the world”. Since psychic distance is subjective, distortions of the reality of the market information occur during the process of collecting and organizing market information. The way managers’ mind processes information on the environment is the reason for the existence of the psychic distance. According to Smith et al. (2011, p. 12) psychic distance is “the perception a business person has of the level of difficulty they would encounter in a foreign market if they were to undertake business operations in that market” and for Dikova (2009, p. 39) psychic distance is “a result of differences in local consumers, preferences, cultures, and business systems which reduce the level of understanding of the local market conditions”.

Psychic distance should not be seen as a construct that influences equally every individual in a firm due to the different specific individual characteristics (Smith et al., 2011). The perceptions individuals hold of the differences between the home and the foreign market will be different because of different personal experiences. Hence, psychic distance construct must be examined at the individual level (Sousa and Bradley, 2006; Ellis, 2007), since it is the individuals that perceive psychic distance not the firms themselves (Smith et al., 2011). When examining psychic distance at the firm level, it is thus necessary to think in terms of the psychic distance held by the individuals, particularly the decision-makers (Evans and Bridson, 2005; Smith et al., 2011). The perception of the differences between the domestic market and the foreign market to a certain extent depends on prior managers experiences that occur at the individual level and not at the national or firm level (Sousa and Bradley, 2008; Dow and Ferencikova, 2010). The more appropriate unit of analysis for measuring psychic distance is the individuals rather than macro-level factors (O’Grady and Lane, 1996; Petersen and Pedersen, 1997; Evans and Mavondo, 2002; Dow and Karunaratna, 2006; Sousa and Bradley, 2006, 2008; Ellis, 2007, 2008; Dow and Ferencikova, 2010; Smith et al., 2011). However, according to Sousa and Bradley (2008) the current indices measure psychic distance at a very high level of analysis. For O’Grady and Lane (1996, p. 313) “measuring distance at the national level may overlook regional differences within the countries; cultural and structural differences that may exist by industry; and individual differences and experiences”.

In this study we will analyze the managers’ perception of psychic distance on CBM&As performance. According to Dow and Karunaratna (2006) and Sousa and

Bradley (2008), the decision concerning when and how to enter international markets is made by individuals and the individuals are those affected by the psychic distance hazard. Therefore, the psychic distance hazard on the individuals' decisions holds huge importance for understanding firms' internationalization options (Smith et al., 2011). Hence, to better understand the impact of the different dimensions of psychic distance on managers that took part in the decision of the CBM&As we will analyze other individual aspects such as background and international experience which may influence the effect of managers' perception of psychic distance on CBM&As performance.

3.2.2 Psychic distance and cross border merger & acquisition performance

The impact of CBM&A on firms' performance is a controversial topic in academy (Bruner, 2002; Haleblan et al., 2009). Some scholars have argued that almost all CBM&A destroyed value. For instance, Grubb and Lam (2000, p. 9-12) stated that "[t]he sobering reality is that only about 20 percent of all mergers really succeed. Most mergers typically erode shareholder wealth (...) the cold, hard reality that most mergers fail to achieve any real financial returns (...) very high rate of mergers failure".

Firms that undertake CBM&As face hazards in international markets because of psychic distance (Shenkar, 2008, Stahl and Voigt, 2008). According to Haleblan et al. (2009) psychic distance has proven to have an impact on firms' performance in the international markets. The impact of psychic distance is not, however, fully understood as several studies have produced contradictory results and it is difficult to compare studies because of differences in how performance was measured (Stahl and Voigt, 2008). For instance, Child et al. (2001) found that cultural differences are likely to have a negative impact on the firms' post-acquisition performance and Stöttinger and Schlegelmilch (2000) found a negative relationship between psychic distance and firms' performance. However for Shimizu and colleagues (2004) CBM&As between firms from countries with greater cultural distance provide enhanced opportunities and may create value. Nevertheless, understanding the impact of managers' perception of psychic distance hazard on CBM&As performance is, to the best of our knowledge, nonexistent.

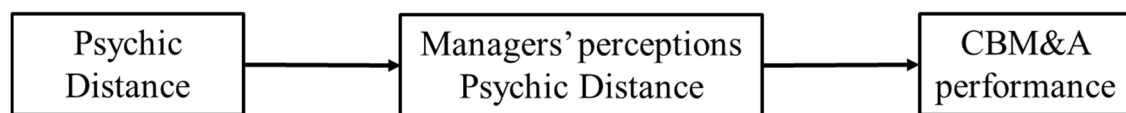
Performance has been defined and measured in different manners across IB literature (King et al., 2004). The debate on the best definition and measure of performance is inconclusive and we may identify three types of performance may IB literature. These types of performance are related to the nature of objectives defined *a priori*: financial performance, operational performance and organizational performance (Venkatraman and Ramanujam, 1986). Financial performance is the most limited way to measure a firm's performance. To assess the financial performance of the firm one must have granted access to the financial data. Also, financial performance puts the emphasis exclusively on financial goals, which is a narrow vision of the firm's goal system. Several measures can be used to calculate financial performance such as sales growth, return (determined through ratios such as Return on Investment, Return on Sales and Return on Equity), dividend per share or other variations of these ratios like Tobin's Q (Bescos and Cauvin, 2004). Operational performance allows overcoming the limitations of financial performance measurement. To measure operational performance, non-financial measures can be used such as market share, new product introduction, marketing effectiveness, technology efficiency and value added, among others (Larbi-Apau and Moseley, 2010). Using simultaneously financial indicators and operational indicators it is possible to go beyond the black box vision of a firm, since it is possible to find a set of operational factors that might have influenced the financial performance (Larbi-Apau and Moseley, 2010). Organizational performance is a broader concept which includes financial, operational and other type of measures. To be accurate, organizational effectiveness is an overall measure which reflects the achievement of goals set by the firm. So, if a firm defines financial goals, organizational effectiveness measures should include financial measures. If operational performance is important for the firm's overall success operational measures should be taken into account. However, there may be other type of organizational goals that make difficult to put this concept in practice.

Therefore there is no clear definition of performance in the context of international business (IB) but the achievement of goals seems to be implicit in the majority of articles (Beamish and Delios, 1997). While some studies considered organizational performance and synergy realization to assess the influence of cultural differences in CBM&As performance (Stahl and Voigt, 2008), others prefer financial

indicators to evaluate the influence of psychic distance in firms' performance (Evans and Mavondo, 2002). It is beyond the scope of this conceptual essay select a measure of performance. Thus we make use of a broad definition of performance as 'achievement of goals defined a priori' (Beamish and Delios, 1997).

We followed Coviello and Munro (1995) and adopted a multidimensional approach to understand the impact of managers' perception of the different dimensions of psychic distance on CBM&As performance. We use used each of the seven dimensions of Dow's (2007) psychic distance stimuli (PDS) – differences in languages; differences in education levels; differences in the degree of industrial development; differences in political systems; differences in religions; time zone differences and previous colonial ties – to scrutinize the impact of impact of managers' perception of the different dimensions of psychic distance on CBM&As performance.

Figure 3.1 Tentative theoretical model



Source: Developed for this thesis

Figure 3.1 is based on the literature review that we have made, although there are some questions that have remained unanswered. To sustain this model we carried out non-confirmatory exploratory interviews for a more complete conceptual model, to try to answer questions beyond the impact of managers' perception of psychic distance on Cross-Border Merger & Acquisition performance. We aim at exploring which dimensions of psychic distance managers perceive as most influential on CBM&As performance; whether managers' background reduce the psychic distance hazards; whether managers' M&As experience in the target country reduce the psychic distance hazard.

3.3 Method

Five exploratory semi-structured interviews addressed to the heads of selected firms provide the conceptual basis for this investigation. The selected firms are Portuguese and have conducted CBM&As in several different countries and are from five different industries: General building contractors, Plastics product manufacturing,

Computer and data processing services, Softwood veneer and plywood and Pharmaceutical preparations. We have selected different industries to prevent eventual biases. These five firms vary in size – the largest comprising a total of 5000 employees, whereas the smaller had only 700. In what concerns age, one was founded in 1924, while the most recent was founded in 1996. In common is the fact that all of them have a sustainable economic situation.

We used a semi-structured and flexible interview script that can be adapted during the interview which is especially useful when the aims are to interpret complex relationships that develop slowly and that are used to develop more detailed knowledge of the phenomena under study (Rubin and Rubin, 2012). So, they do not limit the scope of research unlike what may happen when we choose more formal structures (Fontana and Frey, 1994). The interview script was developed based on the literature review and adjusted after having been reviewed by three international business scholars. The interviews had an average duration of 90 minutes and in all cases the person interviewed was the manager that took part in the decision-making process of the CBM&As. For all the five managers, we ensured anonymity to encourage them to share the eventual failure stories of their CBM&As. The 90-minute- interviews were digitally recorded for later detailed analysis and transcribed verbatim with the help of a word processor, generally within 48 hours.

Table 3.1 A Summary of the major characteristics of the five firms

Interview	Founding date	Sector – SIC code	Interviewee position	Countries of investment	Number of employees
1	1950	1510 - General building contractors	CEO	Portugal, Brazil, Angola, Algeria, Bulgaria, Spain, Morocco, Mozambique, Romania and Venezuela	5,000
2	1975	3261 - Plastics product manufacturing.	CEO	Portugal, Brazil, India, China	1,400
3	1996	7370 - Computer and data processing services.	CEO	Portugal, Spain, Germany, United Kingdom, France and Netherlands	700
4	1959	2436 -Softwood Veneer and Plywood	CEO	Portugal, Spain, France, Germany, United Kingdom, Canada, Netherlands, Switzerland and South Africa	4400

5	1924	2834 – Pharmaceutical Preparations	General Manager Corporate	Portugal, Spain, Switzerland, Italy, Côte d'Ivoire, Angola, Mozambique and Panama	900
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Note: Interviewee position at time of the operation.

We analyzed the managers' perceptions of the different dimensions of the psychic distance construct and the effects on the CBM&As performance. We also sought to understand the influence of two other aspects which arguably minimize the managers' perception of psychic distance impact on CBM&As performance. We then contrasted the answers of our interviewees with the extant literature. The procedure was repeated for all the five interviews.

3.4 Conceptual model

We used to the model (figure 3.1) to guide this study. Each dimension will now be addressed, applying information gained from the analysis of the 5 exploratory interviews.

Psychic distance is posited to be negatively related to the performance of the firm in the foreign markets (Sousa and Bradley, 2008). Internationalization is often a recurring consequence of the growth process and it is seen as an incremental process (Hallen and Wiedersheim-Paul, 1993). The speed and sequence of the internationalization process depends on the degree of knowledge on foreign markets (external environment), experience, and so forth. The degree of knowledge will reduce the psychic distance between the domestic and external environment (Johanson and Vahlne, 1977). The firm's operations in similar markets are thus arguably easier to manage (Johanson and Wiedersheim-Paul, 1975). Firms perform best in foreign markets similar to their home market because of the degree of knowledge their managers possess, the similarity in managerial routines and so forth. In sum, psychic distance will be negatively associated with the performance of the firms in foreign markets.

In sum, the implicit proposition in the extant research might be formulated as follows: *the largest the perceived psychic distance between home and host countries the riskier the operations in foreign markets and the more firms prefer to mitigate the risks involved through low involvement entry modes.*

3.4.1.1 Differences in languages

Differences in languages are a component of the psychic distance construct, receiving endorsement from researchers (Johanson and Wiedersheim-Paul, 1975; Shenkar, 2001; Evans and Mavondo, 2002; Harzing, 2003; Sousa and Bradley, 2006; 2008). Language differences are central obstacles to conducting business and knowledge transfer may require the use of the same language (Buckley et al., 2005). Similarities in languages is a key to understanding present efficiencies in communication that minimize the hazard (Tushman, 1978) The similarities in language can enhance the whole process of negotiation between the different stakeholders and reduce both the costs and risks of international transactions. Thus firms tend to remain within their language groups during their initial expansion as a means of containing risk (Welch et al., 2001). The more similar the languages of the partners, the easier communication gets, which is essential in building trust. As stated by Krugman and Obstfeld (2010), among the 15 member countries of the European Union in 2003, Ireland was the country that held the highest rate of commercial relations with the United States. Ireland “not only does share the same language with the United States, but 10 million Americans descend from Irish immigrants” (Krugman and Obstfeld, 2010, p. 12).

The managers interviewed also considered differences in languages between countries tend to increase the costs of an international transaction: “the lack of understanding of Italian language has led to additional costs” (interviewee 5). The differences in language are arguably negatively associated with the performance of the firm in foreign markets: “inaccurate translations have generated inefficiencies (...) we have invested in training in English to avoid surprises” (interviewee 5). The language differences may even be a excluding factor for HR recruitment “Those who don’t speak English are out of our industry”(interviewee 3). Table 3.2 below presents a summary of the managers’ perceptions on differences in languages.

Table 3.2 Differences in languages

Interview 1	“little relevance”
Interview 2	“Important in the process of integration in the new organizational culture especially in lower hierarchical levels ...”
Interview 3	“In our industry those who don’t speak English is out of it ... English is our official language”

- Interview 4 “One of the major adversities to integrate the new firm resulting from M&A ... Brazilians do not understand us neither in Portuguese nor in English ... those who think that English is understood by everybody are very wrong.”
- Interview 5 “A problem we have had. For example in the Italian firms that we acquired the manager had to use Google translator to try to understand what we asked him ... and using translators is not the solution ... in Spain we also have problems with communication but in Italy is much worse ...”
-

The above leads us to the following proposition concerning the relationship between managers’ perception of differences in languages and CBM&As performance:

Proposition 1.1: *Managers’ perception of differences in languages will be negatively associated with CBM&As performance.*

3.4.1.2 Differences in education

The education level influences the manner in which people communicate and interpret information (Dow and Karunaratna, 2006). Differences in education between countries have been identified as an underlying factor of the hazard of psychic distance (Johanson and Vahlne, 1977; Cavusgil, 1980). The higher the level of education, the more skilled and more efficient people will be. The greater the differences in education among the biggest markets, the higher the risks and uncertainties faced by companies, due to the difficulties of communication in doing business (Child et al., 2009; Dow and Karunaratna, 2006).

Hence, large differences in education between countries decrease the performance of the firms in foreign markets because of the increase of both risk and uncertainty in international markets: “we sold a business in a country in North Africa due to lack of qualified staff. The level of training was very low and as we had no possibility to send skilled expatriates we preferred to sell our participation” (interviewee 2). For interviewee 3, differences in education levels are highly relevant and they prevent eventual problems by acquiring firms which have a highly qualified staff.

Table 3.3 summarizes our key findings on managers’ perceptions on differences in education.

Table 3.3 Differences in education

Interview 1	“That’s why we use many expats with experience in other units of the group”
Interview 2	“It was the main reason for the failure of an acquisition we made”
Interview 3	“In our case it is no problem because we only select a firm to buy if it has qualified staff ...”
Interview 4	“Normally we take our reliable employees for positions that require higher levels of training ... but it is an issue that has received particular attention in South Africa where workers have little or no training”
Interview 5	“In Portugal it is easy to find skilled labor but in other countries it is an issue that most problems arise in our industry ... certainly an issue that negatively affects an acquisition”

The above leads us to the following proposition concerning the relationship between managers’ perception of differences in education levels and CBM&As performance:

Proposition 1.2: *Managers’ perception of differences in education will be negatively associated with CBM&As performance.*

3.4.1.3 Differences in the degree of industrial development

Differences in the degree of industrial development is a component of the psychic distance construct (Johanson and Wiedersheim-Paul, 1975; Evans and Mavondo, 2002). The linkage between differences in the degree of industrial development between countries and the performance of the firms in international markets is not well documented in the literature (Dow and Karunaratna, 2006; Dow, 2007). However, the norms of business communication and interaction are heavily influenced by the degree of industrial development (Dow and Karunaratna, 2006). Differences between countries have the potential to disrupt the flow of information and to create higher uncertainty levels for firms originating from more distant countries. According to The World Bank (2004) countries with the highest degree of development allow companies a greater access to information sources, making it easier to do business, due to the fact that market rules are clearer. Generally, in more developed countries, companies operate in less prone to corruption environments (Fukuyama, 2004). Therefore in countries with high levels of development the psychic distance will tend to be reduced (Brewer, 2007).

The business norms in less industrial developing countries are likely to be dramatically different from those of highly industrialized countries: “The lack of

infrastructures and organization of support services in Venezuela are causes of concern and eventually hinder business performance (...) the lack of modern infrastructures are a major cost to consider in our CBM&As in South America and North Africa” (interviewee 1). Costs and uncertainty in international markets are introduced by differences in infrastructures: “Uncertainty over supplies of raw-materials in South Africa results, at some extent, from obsolete or deficient infrastructures” (interviewee 4). In table 3.4 we present a summary of the managers’ perceptions on the differences in the degree of industrial development.

Table 3.4 Differences in the degree of industrial development

Interview 1	“I think it is related to differences in training ... it turns out to be another cost to be considered in M&A”
Interview 2	“As our procedures are always equal in all group firms it has little influence.”
Interview 3	“We’ve never felt that those differences have an impact on M&A processes, perhaps the consultants who prepare the operation have a different opinion but we do not feel any problem with these differences...”
Interview 4	“A very important factor when it comes to choosing suppliers. We seldom achieve inputs with the quality standards that we pursue”
Interview 5	“It can sometimes be even beneficial ... it enables us to acquire products and services at more competitive prices. For example, to test a medicine in a developed country like the USA. it is substantially more expensive than in a developing country like India”

The above leads us to the following proposition concerning the relationship between managers’ perception of differences in the degree of industrial development and CBM&As performance:

Proposition 1.3: *Managers’ perception of differences in the degree of industrial development will be negatively associated with CBM&As performance.*

3.4.1.4 Differences in political systems

Differences in political systems share a common fate with differences in language and education (Dow and Karunaratna, 2006). The differences in political systems can create differences between the laws regulating certain businesses which can have a negative impact on business performance. Different political systems generate uncertainties and transaction costs (Goerzen and Beamish, 2003). And frequent changes of the political system in a country strongly contributes to more uncertainty and affects

the normal functioning of companies. According to Brewer (2007), psychic distance decreases between countries with close political relationships and with similar political systems.

Costs and uncertainty tend to increase in the international operations whenever two firms are from countries with significant differences in political systems: “in countries of the former Soviet bloc a large part of the problems / surprises that we are faced with result from the inheritance of a Soviet political system (...) very high levels of corruption that ultimately have consequences in the performance of our own companies” (interviewee 1). Unexpected events and decisions have the potential to increase the costs and risks of doing business in different countries. According to Dow and Karunaratna (2006) differences in political systems may lead governments to interfere in the way of doing business by the firms: “We have already abandoned an acquisition due to the influence the local government had in the administration of that company” (interviewee 4). Table 3.5 summarizes the main findings on managers’ perceptions on the differences in political systems.

Table 3.5 Differences in political systems

Interview 1	“Any company that does not note this issue will not survive ... issues related to corruption are complicated even to speak of ... in the countries of eastern Europe where acquisitions were made, changes in the political system were still very present and that had an effect on our operations”
Interview 2	“we avoid any interference in the politics of the countries where we operate”
Interview 3	“There are no problems if we know the way they operate ... we have few relationships with politicians in the countries where we buy firms”
Interview 4	“we have as an internal principle not to mix business with politics ...”
Interview 5	“In this matter we are completely neutral ... for example in Spain the Prince just opened our factory to give us greater visibility. Workers only took pictures with him if they showed interest”

The above leads us to the following proposition concerning the relationship between managers’ perception of differences in political systems and CBM&As performance:

Proposition 1.4: *Managers’ perception of differences in political systems will be negatively associated with CBM&As performance.*

3.4.1.5 Previous colonial ties

Former colonial ties have been a common variable used in international trade flow studies (Rauch, 1999). According to Ghemawat (2001), colonial links between countries increase trade by 900%. Previous colonial ties are a potential antecedent to factors such as differences in languages, religions and political systems. According to Dow and Karunaratna (2006) colonial ties is a key factor that may influence the psychic distance. The colonizing country takes its culture to the country being colonized (acculturation), and this leads to similar cultural values and ways of doing business (Srivastava and Green, 1986). For instance, the reduced psychic distance between Hong Kong and the United Kingdom are the result of colonial ties (Child et al., 2002).

Colonial ties associated with the perception of familiarity arguably reduce the hazards of international operations (Dow and Karunaratna, 2006). However, interviewee 1 does consider previous colonial ties as decisive: “the impact of colonial issues on the performance of an M&A is null (...). It can help by speaking the same language, but it is not a major issue”. Table 3.6 presents the main findings of managers’ perception on previous colonial ties and CBM&A performance.

Table 3.6 Previous colonial ties

Interview 1	“In Brazil they say that the Portuguese heritage is to blame for everything... in Angola we also had problems for being Portuguese but the opposite is also true”
Interview 2	“Brazilians say we are to blame for current culture, but I quickly understand and make them understand that I do not have anything to do with the Brazilian culture. For Brazilians we are to blame for the major mistakes that the country has made ...”
Interview 3	“I never felt that that question was put ... nor even when we bought an English firm that had subsidiaries in India did I feel it”
Interview 4	"I never felt any prejudice there ... "
Interview 5	“It doesn’t have any influence ... we’ve never had negative feedback from Angola and Mozambique, neither with the population nor at an institutional level ... when it comes to do business there are other issues far more important”

Based on the extant theory, we propose:

Proposition 1.5: *Managers’ perception on previous colonial ties will be positively associated with CBM&As performance.*

The proposition above is not entirely aligned with Rauch (1999) and Ghemawat (2001) arguments. In fact, only two of the managers considered relevant the relationship between colonial ties and CBM&As performance but, they argue that in some cases previous colonial ties may hinder firms' performance. However, the theory-driven proposition warrants additional analysis and empirical tests for further research.

3.4.1.6 Differences in religions

Religion is part of the culture of a society and separates people into groups according to the beliefs of each, being one of the major components of conflict between different cultural groups (Triandis, 2000). Religious differences can increase business risks and transactions costs, hindering the intensity of trade flows between countries. Differences in religion have the potential to hamper the flow of information and influence the pattern of trade and increase transaction costs between the two trading partners. Dow and Karunaratna (2006) include religious differences as a component of psychic distance and likely to influence the performance of companies in international markets.

Researchers like Shenkar (2001) argued that religious differences between countries are a potential factor that may increase psychic distance and is considered a factor of conflict between different countries (Boyacigiller, 1990): "Religion can be a problem if we are not neutral on this issue" (interviewee 5). Religion affects the communication and interaction between people. Therefore differences in religion increase the risk of misunderstandings (Dow, 2007) thus influencing the costs of controlling and managing the international operations of a firm performance.

In table 3.7 we present a summary of the managers' perceptions on differences in religions.

Table 3.7 Differences in religions

Interview 1	"We never had problems with religious issues, nor do I believe it has an impact on the success / failure of M&A"
Interview 2	"Never have I felt that differences of religion had an impact on the performance of our M&A operations"
Interview 3	"Never had we a problem at that level"
Interview 4	"Never have they been a problem in our M&A"
Interview 5	"To avoid problems we respect all creeds and do not celebrate any religious day ... nor do we celebrate Christmas ... we are neutral on this issue"

Grounded on extant theory, we propose:

Proposition 1.6: *Managers' perception of differences in religions will be negatively associated with CBM&As performance.*

The interviews are not aligned with the arguments stated by researchers like Shenkar (2001), Boyacigiller (1990) and Dow (2007). Here again we consider that the proposition, concerning the relationship between managers' perception on differences in religions and CBM&As performance, may be further looked into in future research.

3.4.1.7 Time Zone

Countries that border and are located in the same time zone are psychically closer than other countries (Medinets et al., 2009). In this sense, and following Dow and Karunaratna (2006), the differences in the time zone are likely to be a dimension of the psychic distance stimuli. The time zone difference between countries may be a problem for managers in international markets, because these differences could generate uncertainty about the need for rapid communication (Dow and Karunaratna, 2006). The differences in working hours in the various working places are still a problem for managers as this creates additional uncertainty whenever there is the need to quickly solve problems.

However the information we gathered from the interviewees does not follow the arguments stated by Dow and Karunaratna (2006): “with the new technologies, communication is not affected by time differences (...) in the past it may have been a factor with negative impact (...) not today” (interviewee 3). Table 3.8 summarizes the findings on managers' perceptions on time zone differences and CBM&As performance, emphasizing the lack of importance of these differences.

Table 3.8 Time zone differences

Interview 1	“Little or nothing relevant”
Interview 2	“Only expatriates feel these differences but they are easily overcome”
Interview 3	“I do not think it is a problem”
Interview 4	“It's an issue that was never considered as a problem in our M&A”
Interview 5	“No problem”

Despite the divergences between theory and practice we propose:

Proposition 1.7: *Managers' perception on time zones differences will be negatively associated with CBM&As performance*

Hence, the proposition concerning the relationship between managers' perceptions on time zone differences and CBM&As performance may be empirically investigated in future research.

3.4.2 Managers' background

According to Harzing (2003), managers make decisions based on their perceptions of the environment. Thus, the manager's perception of psychic distance is critical when investigating the hazards of psychic distance (Ambos and Håkanson, 2014). Researchers like Fletcher and Bohn (1998) and Sousa and Bradley (2008) suggest the managers' individual characteristics, such as the knowledge of different cultures, minimize the effect of managers' perceptions of psychic distance on CBM&A performance: "knowledge of other cultures are essential for the proper management of a CBM&A mainly in the phase of human resources integration" (interviewee 2). Also, international experience (e.g. contact to different cultures, experience in international business) arguably decreases the effect of managers' perceptions of psychic distance on CBM&A performance: "in our international operations we only use qualified staff with international experience" (interviewee 3); "our middle and top managers are required to work in different companies in the group across different continents" (interviewee 1). In table 3.9 we present the key findings of the role of knowledge of different cultures and international experience.

Table 3.9 Knowledge of different cultures and international experience

Interview 1	"It is a fundamental aspect! We always choose employees who have had experience in different cultures and with several years of work at the firm...we only hire employees with higher education for the middle and top positions."
Interview 2	"All our employees have college degrees and are encouraged to spend several weeks a year in different offices spread throughout Europe ... but there are always surprises when we acquire a firm in a country with a different culture..."
Interview 3	"...we use expatriates with experience in different countries and cultures so as not to have so many surprises after the M&A operations ...even if the employees have a lot of experience, there are always surprises..."
Interview 4	"Our middle and superior staff consist only of employees with higher education and only the best of the best take part in the negotiations before and after the M&A ... without training and experience it is much more difficult for a M&A to succeed ..."

Interview 5 “We have highly qualified staff and we are committed in ongoing training ... it is one of our strengths ... whenever possible we hire local managers in order to make the integration of the two companies easier ... managers with little international experience were one of the factors for the failure of ours M&A”

The above leads us to the following propositions concerning managers' background effect on the relationship between managers' perceptions of psychic distance and CBM&A performance:

Proposition 2.1: *Managers' greater knowledge of different cultures will minimize the effect of the perceived psychic distance on CBM&A performance, such that greater knowledge of different cultures reduces the impact of the perceived psychic distance on CBM&A performance.*

Proposition 2.2: *Managers' higher level of international business experience will minimize the effect of the perceived psychic distance on CBM&A performance, such that higher level of international business experience reduces the impact of the perceived psychic distance on CBM&A performance.*

3.4.3 Managers' M&A experience

A firm's country-specific M&As experience may minimize the hazards of the psychic distance because of the better knowledge of country context. CBM&As experience allows firms to access to varied “routines and repertoires which are embedded in national culture” (Morosini et al., 1998, p. 137). Previous acquisition experience in a country will reduce cost since firms minimized the liabilities of foreignness and the differences of managing CBM&As (Barkema and Vermeulen, 1997): “Whenever possible our employees with M&A experience in the country are part of the management teams responsible for the new M&A processes” (interviewee 3); “in our second acquisition in Spain the M&A team kept several members from the first acquisition team” (interviewee 4). According to Doukas and Travlos (1988) acquisitions in countries in which the firms have already performed CBM&As provide higher returns because managers already have knowledge about the business (i.e., clients, markets, other players and suppliers) and knowledge about the institutional environment (i.e., governments, laws and values): “To some extent the success of an acquisition we made in Africa was due to contacts we had made in a previous acquisition in that

country” (interviewee 4); “we only use staff with experience (...) with high levels of training to manage the process of an M&A” (interviewee 1). Table 3.10 presents the perceptions on the role of managers’ M&A experience in the target country.

Table 3.10 Managers’ merger & acquisition experience in the target country

Interview 1	“Yes it is important, we always learn with either positive or negative experiences. It allows to get a broader understanding of the culture of this country ... even for M&A in other countries past experience is essential”
Interview 2	“Definitely! However, that is not synonymous of success ... there are surprises in all operations of M&A”
Interview 3	“I cannot answer you. We've never done M&A more than once in the same country ... but of course the experience can greatly help to minimize the impacts of cultural differences”
Interview 4	“It is important but not decisive ... for example in our second acquisition in Spain, we kept on taking decisions which we now know were wrong ... we not always learn from past mistakes. If I went back to the past, I could eventually do everything the same way again ... all M&A are different even in the same country and industry”
Interview 5	“Important yes, but we have always surprises ... all M&A are different. When we think we have already foreseen everything... we have more surprises in relation to procedures, bureaucracy and communication difficulties ...”

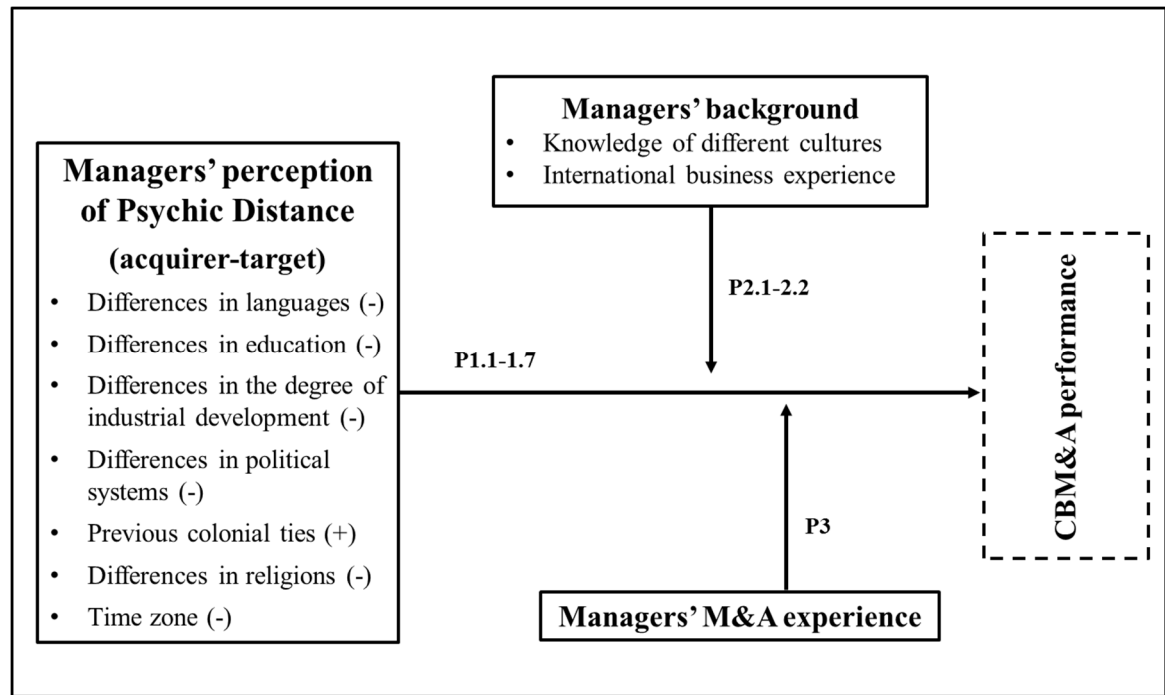
The above leads us to the following proposition concerning the influence of managers’ M&A experience on the relationship between managers’ perception of psychic distance and CBM&As performance:

Propositions 3: *Managers’ prior Merger & Acquisition experience in the target country will minimize the effect of the perceived psychic distance on CBM&A performance, such that higher experience reduces the impact of the perceived psychic distance on CBM&A performance.*

Figure 3.2 presents the parsimonious conceptual model of the impact of managers’ perception of psychic distance on CBM&As performance. The propositions we advance are deducted from the extant literature and further reinforced with the information gained with the five explorative interviews. It should be noted that the literature review and interpretation of practice, i.e. the analysis of the 5 interviews, are not always

aligned. The simple but comprehensive model also features two aspects - Managers background and managers' M&A experience - that can minimize the effect of PD in CBM&As. For these two aspects there is total alignment between theory and practice.

Figure 3.2 A conceptual model of managers' perception of psychic distance and CBM&A performance



Source: Developed for this study

3.5 Discussions and conclusions

In this study aim at understanding of the extent of the impact of psychic distance hazards in CBM&As performance, by reviewing the extant literature on psychic distance and CBM&As performance and analyzing the managers' perception of the different dimensions of the psychic distance construct as defined by Dow and Karunaratna (2006): differences in language, education, degree of industrial development, political system, previous colonial ties, religion and time zone. Unlike many of the previous researchers, we use logical deduction and further reinforce our propositions with data from 5 exploratory interviews with managers that have performed CBM&A. Interviewing top managers, who were part of these operations, we inquired about their perceptions of the various difficulties caused by differences between countries. As stated by Harzing (2004), Sousa and Bradley (2008), Smith et al.

(2011) and the managers, i.e. the individuals, and not the firms, that are influenced by psychic distance. Hence, it is critical to understand the managers' perception of psychic distance for better planning and organizing to avoid risks and surprises when firms perform CBM&As.

We contribute to extant literature by putting forward a parsimonious conceptual model of the effect of managers' perception of psychic distance on CBM&As performance. The model explains the role of the managers' perception of psychic distance and suggests that managers' background – knowledge of different cultures and international experience – and M&A experience in the target country minimize the effect of managers' perception of psychic distance on CBM&As performance. We have also uncovered some suggestions of possible divergence between theory and practice which warrants further enquiry.

This study reinforces that managers' perceptions of psychic distance affect the CBM&A performance. It also follows the studies of Sousa and Bradley (2008) and Dow and Karunaratna (2006), among others, calling out the need to understand the managers' perceptions about the differences between countries, i.e. psychic distance, when the firms decide to internationalize, specifically performing CBM&A. Before performing a CBM&A firms must understand the individual level of psychic distance, i.e. managers' perceptions and individual features not just examine national differences: all levels of psychic distance - national level, firm level and individual level – are relevant and have an impact on CBM&A performance.

Thus, understanding the impact managers' perception of psychic distance is critical to minimize the CBM&As hazards, since the managers are involved in every decision-making process both before and after a M&A operation. This knowledge may prove to be a valuable distinctive factor and one with the potential to provide a competitive advantage. It seems reasonable to suggest that the greater the knowledge about psychic distance, the lower the perceived psychic distance. The result may be a better performance in foreign markets.

From a managerial perspective, this study's findings highlight the importance of developing cross-cultural competencies, since such competencies may avoid, or at least reduce, the negative effects of psychic distance. One way to overcome this negative effects may be employing local managers or retain the managers of the acquired firm –

provided it does not threaten the internal consistency of the firm. Managers may pay more attention to the differences between environments and what differences are more important. Therefore, managers need to address the potential hazard impacts of psychic distance, particularly in terms of differences in languages, education and industrial development systems since this may have a negative impact in CBM&As performance. All the managers in international firms should be aware of the differences between the home and foreign market they are about to enter through a CBM&A, even if the home and foreign market are perceived as psychically close.

Limitations. This study has some limitations worth noting concerning the exploratory interviews. There is a relative homogeneity of the 5 firms to which the interviewed managers belong. All the five firms were strong performers and financially robust firms. Managers from other types of firms may have different perceptions both of psychic distance and of the managers' individual features which minimize psychic distance hazards. Also, the idiosyncratic characteristics of the Portuguese managers may bias their perspective of psychic distance. Nevertheless, the interviews were merely exploratory and intended to reinforce the theory-driven propositions.

Future research. Lastly we put forward some suggestions for future research. The conceptual model we put forward may be extended by formulation testable hypotheses to be further validated. The empirical evidence to be used may be collected through surveys, secondary data or even in-depth case studies. In fact, case studies may prove interesting as they allow to have a rich and deep understanding of CBM&As, especially when MNE from non-Western countries take part in the business. For instance, it would be interesting to carry out case studies of CBM&As in countries of the former Soviet sphere of influence, or the emerging countries, where the economic and cultural realities are quite different from those found in other Western countries.

The effect of managers' perception of PD on CBM&A performance may be further delved into. The possible divergences between theory and practice uncovered in the exploratory interviews also merit scholarly attention as they may indicate areas for further theoretical development. The PD perceptions also warrant further investigation to ascertain the eventual asymmetric effects. For instance, it may be interesting to investigate the managers' perceptions of PD from both directions, i.e. understanding if the PD perceptions are symmetrical.

3.6. References

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Chapter 4.

The psychic distance hazards in cross-border merger and acquisition performance: An empirical study of cross-border mergers and acquisitions from 26 countries⁴.

Abstract

The internationalization strategies of multinational corporations (MNCs), more specifically through cross-border mergers and acquisitions (CBM&As), have warranted the research focus of many international business, strategic management and corporate finance scholars for decades. However, the knowledge about the variables that affect the CBM&As performance remains limited. Only a few studies have sought to examine the impact of cultural issues, such as cultural distance or psychic distance, on CBM&As performance. Therefore the findings on extant literature are not conclusive and often contradictory. Our findings support that psychic distance, as a whole, has a negative impact on CBM&As performance although only in the short-term there is a statistically significant negative impact whereas in the long-term no effect is statistically significant. Analyzing the different dimensions of psychic distance stimuli (PDS), we concluded three individual items - differences in language, education and political systems – are also significant. Thus, this paper seeks to contribute to a better understanding of the psychic distance hazards on CBM&As by breaking down the psychic distance stimuli developed by Dow and Karunaratna (2006) and test the effect of each dimension on CBM&As performance, using the event study methodology. The findings of this study may be useful for managers of firms that wish to undertake CBM&As as it denotes important dimensions which hinder post-deal performance.

Keywords: Psychic distance, cross-border M&As, performance, internationalization, event study, CAR.

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4.1 Introduction

Firms use different strategies for growth and expansion of their business, their product and geographic scope. Albeit there are many possible paths for undertaking growth - organic or internal development, engaging in strategic alliances or joint ventures, among others - it is remarkable the extent to which firms use merger and acquisitions (henceforth M&As) for both domestic and international growth. M&As research is important because these transactions have significant implications for firms' performance (Laamanen and Keil, 2008) and account for nearly 70% of worldwide foreign direct investment (Yildiz, 2014). Given its high relevance, numerous studies have addressed M&As phenomenon both empirically and theoretically (see the overviews by Chi, 2000; Noe and Rebello, 2006; Shaver, 2006; Kacpperczyk, 2009; Wan and Yiu, 2009; Ferreira et al., 2014). However, even after decades of research on this issue, the research provides no clear consensus on the impact of these transactions on the firms' performance (Haspeslagh and Jemison, 1991; Very, 2004; Very and Gates, 2007). For instance, Chatterjee et al. (1992) and Stahl and Voigt (2008) found a negative impact of cultural differences on CBM&As performance and Morosini et al. (1998) found a positive relationship between cultural differences and CBM&As performance. King et al. (2004) perform a meta-analysis of 93 prior empirical studies on M&A performance and concluded: "our results indicate that post-acquisition performance is moderated by variables unspecified in existing research (...) An implication is that changes to both M&A theory and research methods may be needed" (King et al., 2004, p. 188).

Cross border mergers and acquisitions (henceforth CBM&As) are extensively scrutinized due to their long-term effects (Capron and Pistre, 2002). According to Morosini et al. (1998), CBM&As have become major strategic tools for corporate growth of multinational corporations. CBM&As increase the efficiency and effectiveness of whole industries in addition to affecting individual firms' competitive ability (Hitt et al., 2001). In most cases, CBM&As are the only way to acquire resources and knowledge that are not available in the market (Zahra et al., 2000). Firms choose to undertake CBM&As for different purposes. CBM&As may allow obtaining synergies that would not be acquired otherwise (Bradley et al., 1988), exploiting economies of scale (Homburg and Bucerius, 2006), overcoming the shortcomings of the financial

markets (Brouthers and Brouthers, 2000) or achieving fast access to specialized technological assets (Chen, 2008; Elango et al., 2013). Managers' self-interest or merely the inadequate evaluation of the potential synergies may also lead to CBM&As (Seth et al., 2000). The outcome of CBM&As is contingent on the post- acquisition integration of the acquired firm. For instance, Child et al. (2001) found that cultural differences are likely to have a negative impact on the firms' post-acquisition performance. The failure of CBM&A deals is arguably often due to cultural differences (Haspeslagh and Jemison, 1991; Morosini et al., 1998; Child et al., 2001; Bauer and Matzler, 2014; Yildiz, 2014).

The present study seeks to analyze the effect of psychic distance and their dimensions on CBM&As performance. In this study we contribute to the research of the psychic distance hazard on CBM&As performance by studying the performance of 415 CBM&A between 2005 and 2012, involving acquirers from United States and targets from 26 countries. Thus we analyze the PD hazards from one direction (from USA to other countries) considering the asymmetry of PD (Luo and Shenkar, 2011; Shenkar et al., 2008). We used an event study methodology to analyze the hazards of the psychic distance on CBM&As performance on the stock market performance of the acquiring firms available on the Security Data Corporation (SDC). We used the formative index based on five key dimensions of psychic distance stimuli taken from Dow and Karunaratna (2006) and Dow (2007) to determine 'psychic distance' hazard between the U.S acquirer firms and the target firms from other countries involved in the CBM&A. We examine whether CBM&As involving firms from countries with dissimilar cultures do worse than those between firms from countries with similar cultures, i.e., greater psychic distance between two countries worse will be acquirers firm's performance. Specifically we scrutinize the impact of differences in language, education, religion, industrial development and political systems on CBM&A performance.

This study contributes to international business and strategic management research in different ways. First, this study contributes to the literature on differences between countries by empirically testing the effect of psychic distance on CBM&As performance. Second, it contributes to a better understanding of Dow and Karanuratna (2006) psychic distance stimuli (PDS) construct by testing the individual effects of the 5 major variables: we investigate whether certain variables of the stimuli have a more

significant impact than others on the CBM&As performance. Overall, this study extends the current understanding of the literature on differences between countries by scrutinizing the relevance of psychic distance on CBM&As operations.

This paper is organized in four main sections. First, we present a review of the concept of psychic distance and psychic distance and cross border mergers and acquisitions performance to provide the theoretical foundation of our conceptual model and research hypothesis that we put forward in the second part of our study. We conclude with a broad discussion, pointing implications and making suggestions for future research.

4.2 Literature review

4.2.1 Psychic distance and the internationalization of firms

According to Johanson and Vahlne (1977, 2009) the internationalization of firms may be examined as an incremental process. As firms internationalize they accumulate experience and knowledge and are likely to evolve to higher commitment foreign entry modes, namely mergers and acquisitions and greenfield investments (Johanson and Vahlne, 1977). A crucial element in this evolutionary model is firms' perceived risks that, according to Johanson and Wiedersheim-Paul (1975), leads firms to begin internationalizing to nearby markets - markets in close geographic proximity, with cultural, political and legal systems that resemble those found in the home country – and only later do they search for more distant markets. The initial expansion to proximate locations seeks to reduce perceived risks by avoiding unfamiliar spaces and by selecting entry modes that entail low commitment of resources. As firms deepen their internationalization they start expanding to more distant countries also assuming greater risks and deploying high involvement entry modes.

Psychic distance, i.e., “the sum of factors preventing the flow of information from and to the market. Examples are differences in language, education, business practices, culture, and industrial development” (Johanson and Vahlne, 1977, p. 24), creates a sense of dissimilarity (in factors such as language, culture and personal relationships between entrepreneurs) that hinder firms' operations (Beckerman, 1956). According to the early study of Johanson and Wiedersheim-Paul (1975, p. 307) psychic distance was defined as “factors preventing or disturbing the flow of information between firms and market”. Kogut and Singh (1988, p. 413) defined psychic distance as “the degree to

which a firm is uncertain of the characteristics of a foreign market”, and for Ford (1984, p. 102) psychic distance is the “the extent to which the norms and values of the two companies differ because of their separate national characteristics”. Evans et al. (2000, p. 375) conceptualized psychic distance as “the distance between the home market and a foreign market resulting from the perception and understanding of cultural and business differences”. For Fletcher and Bohn (1998, p. 49) psychic distance “includes aspects other than culture, it is based on perceptions that are culturally influenced, if not determined”. They defined psychic distance as “this willingness (or lack thereof) to undertake business in specific overseas markets”. PD is also posited to be asymmetric since the perceptions of differences between two given countries may vary, unlike geographic distance or the traditional measures of cultural distance (Luo and Shenkar, 2011; Shenkar, 2001). The asymmetry of PD is implicit to Uppsala’s incremental process of internationalization (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975) although being frequently overlooked (see Håkanson & Ambos (2010) for an overview).

The psychic distance construct is also regarded as a measure of uncertainty. This uncertainty is driven by cultural and business difficulties that produce obstacles to learning about the foreign markets. According to Fletcher and Bohn (1998) psychic distance is also a function of cultural distance, learning in dealing with different markets and similarity in adopted values between the home and the foreign country. According to a study of Nordstrom and Vahlne (1994, p. 42) psychic distance is defined as the “factors preventing or disturbing firms’ learning about and understanding a foreign environment”. Therefore it is clear that the construct of psychic distance entails those elements (observable or silent) that make home and host countries environments differ, including such aspects as language, religion, level of economic development, wealth distribution, level of education, degree of technological sophistication, geographic distance, pervasiveness of corruption and cultural differences (Johanson and Wiedersheim-Paul, 1975) and make the operations of firms difficult or more likely to fail. Consequently, understanding and learning became essential to the concept of psychic distance, rather than the simple flow of information (Smith et al., 2011).

The psychic distance is influenced by the cultural differences between two given countries (Dow and Larimo, 2009; Blomkvist and Drogendijk, 2013). According to

Sousa and Bradley (2006) the cultural stereotyping and cultural filters that are shared by members of the people belonging to the same culture tend to have similar perceptions of cultural distance to foreign countries. So psychic distance is not only an individual phenomenon but also a collective phenomenon because culture determined haziness in the ways of seeing people belonging to other groups. This is why Buckley and Casson (1998) referred to culture as “collective subjectivity” and, even within the same culture, individuals from different firms may have different perceptions of other cultures, given their level of education, cultural background, specific organizational culture, and experiences (Eriksson et al., 2000; Smith et al., 2011). The international experience acquired by the individuals and a firm, is therefore accumulated in incomplete and a systematic way, providing a basis for future decisions to be taken when similar conditions present themselves (Eriksson et al., 2000). As a result psychic distance can be measured at an individual, firm or national level. The individual and collective perceptions of psychic distance tend to be related, but they generally differ on specific individual characteristics, such as cultural background, level of education, and managers’ international experience, among other factors (Dow and Karunaratna, 2006).

Psychic distance is one of the most fundamental constructs within the field of international business (Dow and Larimo, 2009; Blomkvist and Drogendijk, 2013). Across the past four decades, psychic distance has been cited as a key variable which influences several strategic decisions, as shown in table 4.1.

Table 4.1 Psychic distance effects

Psychic distance impacts on	Works
The decision to export	Wiedersheim-Paul, Olson, and Welch (1978); Holzmüller and Kasper (1990); Fletcher and Bohn (1998).
Market selection decisions - for both exporting and produce	Johanson and Vahlne (1977); Dow and Ferencikova (2010); Dow and Karunaratna (2006); Håkanson and Dow (2012); Blomkvist and Drogendijk (2013).
Foreign direct investment	Green and Cunningham (1975); Davidson (1980); Grosse and Goldberg (1991); Grosse and Trevino (1996); Habib and Zurawicki (2002).
Entry mode choices	Kogut and Singh (1988); Kim and Hwang, (1992); Brouthers and Brouthers (2000); Chang and Rosenzweig (2001); Tihanyi et al. (2005).
The use of acquisitions versus greenfield entries	Shaver (1998); Padmanabhan and Cho (1999); Brouthers and Brouthers (2000); Harzing (2002).
International performance	Li and Guisinger (1991); O'Grady and Lane (1996); Brouthers (2002); Evans and Mavondo (2002); Tihanyi et al. (2005); Evans et al. (2008).
The degree of adaptation in foreign markets	Mueller (1991); Cavusgil and Zou (1994); Shoham (1995); Dow (2001); Sousa and Bradley (2005).
International joint ventures	Agarwal (1994); Barkema and Vermulen (1997); Hennart and Zeng (2002).
International marketing strategies	Evans and Bridson (2005); Sousa and Bradley (2005); Evans et al. (2008); Sousa et al. (2013).
A variety of other international phenomena	Boyacigiller (1990); Manev and Stevenson (2001); Gong et al. (2005).

Note: Some articles used dimensions includes in psychic distance construct such as cultural distance.

Most of the studies has found an impact of Psychic distance on firms' international operations. Psychic distance is posited to have an impact on entry mode decision (Brouthers and Hennart, 2007, Ellis, 2007). According to Dow and Larimo (2007) a high degree of psychic distance between countries is expected to have negative impact on firms' desires for high control of their operations in the foreign market, as in the case of CBM&A operations. This negative impact has been supported by several empirical studies which have found a significant negative correlation between psychic distance and entry mode selection (Zhao et al., 2004; Magnusson et al., 2006) and also negative influence on trust and satisfaction in international distribution (Obadia, 2013). The meta-analysis of Magnusson et al. (2008) also confirms the negative impact of PD in firm international performance. Håkanson and Ambos (2010, p. 195) observe that "the general assumption in most of these studies is that the more different a foreign

environment is as compared to that of a firm's (or an individual's) country of origin, the more difficult it will be to collect, analyze and correctly interpret information about it, and the higher are therefore the uncertainties and difficulties – both expected and actual – of doing business there”.

On the other hand, the impact of Psychic distance on firms' international operations may be positive. According to Evans and Mavondo (2002) a greater the psychic distance (and thus a greater uncertainty firms face) will compel firms to “work harder” to reduce this uncertainty instead of overestimating the similarities in close markets (O'Grady and Lane 1996; Pedersen and Petersen 2004). Several studies have also shown a positive impact of psychic distance on firms' performance (e.g. O'Grady and Lane, 1996; Morosini et al., 1998; Evans and Mavondo, 2002; Sousa et al., 2010). O'Grady and Lane (1996) found that albeit the Canadian retailers perceived the US market psychically very similar their failure rates were extraordinarily high. Morosini and colleagues (1998) found a positive relation between CBM&As performance and psychic distance. Evans and Mavondo (2002) and Sousa et al. (2010), corroborated the conclusion about the positive Psychic distance impact on performance and by examining the Australian retailers and Spanish manufacturers respectively. Therefore, it appears to be a reasonable explanation that psychic distance positively impacts performance – the psychic distance paradox (O'Grady and Lane, 1996). The psychic distance paradox indicates managers fail to perceive the true psychic distance between countries when they neglect the differences between countries. This may lead managers to ‘see’ a country psychically close when it is not in fact (for a review of this literature see Stahl and Voigt, 2008). Therefore, “learning begins with the ability to see differences” (O'Grady and Lane, 1996, p. 325).

4.2.2 Psychic distance and cross border mergers and acquisitions performance

M&As have been studied in strategic management also under diverse lenses. The post-acquisitions integration of the acquired firms has warranted special attention (Zollo and Singh, 2004) the cultural hazards in integration different cultures (Jemison and Sitkin, 1986; Datta and Puia, 1995; Morosini et al., 1998; Clougherty, 2005; Nadolska and Barkema, 2007; Weber et al., 2011; Bauer and Matzler, 2014), the various human resource issues can be managed during M&As in order to reduce negative outcomes

(Siehl and Smith, 1990; Schuler and Jackson, 2001; Bryson, 2003; Aguilera and Dencker, 2004) the impact of resource relatedness (Chatterjee, 1986; Singh and Montgomery, 1987; Seth, 1990b; Chatterjee et al., 1992; Healy et al., 1992), the loss of value post-acquisition (Dyer et al., 2004; King et al., 2004), the human resource management integration in different cultures (Calori et al., 1994; Lubatkin et al., 1998; Child et al., 2001; Very and Schweiger, 2001), the desire to gain access to new knowledge and transfer existing knowledge between the firms (acquiring and the acquired) (Bresman et al., 1999; Ranft and Lord, 2002; Bjorkman et al., 2007) and the target selection (Haspeslagh and Jemison, 1991) namely because of the exit of key personnel and clients partially explain this loss. The fact is that many acquisitions have negative impact on performance for reasons such as poor selection of the targets, no synergies are exploited and excessive debt (Haspeslagh and Jemison, 1991; Hitt et al., 2001). According to Hitt et al. (2001) only the M&As in which the managers of both the acquirer and the acquired work collaboratively to maximize the gains from synergies created by integrating the acquiring firm's resources with those of the newly acquired may improve performance. Another reason is reflected in Karim and Mitchell (2000) argument that M&As are opportunities for firms to reconfigure their businesses, altering their pool of resources and capabilities.

M&As operations are a mechanism to access critical resources, increase firm's power relative to other organizations and reduce competitive uncertainty created by resource dependencies among firms. Integration of complementary resources between an acquiring firm and a target may be difficult if not impossible for competitors to imitate (Teece et al., 1997). M&As as learning options or opportunities (Barkema and Vermeulen, 1998; Vermeulen and Barkema, 2001) may grow the firms' knowledge through acquiring or 'grafting' of external knowledge bases (Cohen and Levinthal, 1989; Huber, 1991). Indeed, obtaining know-how and developing capabilities are important motives for M&As (Link, 1988; Granstrand et al., 1992; Chakrabarti et al., 1994; Wysocki, 1997a, 1997b). Learning from a target firm and building new capabilities is a reason why firms acquire others (Amburgey and Miner, 1992). Moreover, M&As are a mode to access resources not yet held (Hitt and Ireland, 1986; Karim and Mitchell, 2000). Target firms often have unique employee skills, organizational technologies or superior knowledge that are available to the acquiring

firm only through acquisitions. These are capability building acquisitions, which have been gaining explanatory power for why many acquisitions have occurred in the last decades (Gammelgaard, 2004). Furthermore, it is noteworthy that M&As are a means for a quicker access to valuable resources that are difficult to achieve by using internal development or other governance form (Pfeffer, 1972; Burt, 1980; Finkelstein and Boyd, 1998). For Olie (1994) and Vermeulen and Barkema (2001) M&As may supply firms with competitive advantage by giving them unique and potentially valuable resource that are embedded in a different cultural background. According to Stahl and Voigt (2008, p. 163) “these benefits can be realized only if the cultural differences between the merging firms are not so large that they interfere with the successful transfer of capabilities, resource sharing, and learning”.

Psychic distance has been demonstrated to have an impact on CBM&As performance (Morosini et al., 1998; Evans et al., 2000; Evans and Mavondo, 2002). Performance may be conceptualized and measured in several different ways. For example, financial indicators have been used to assess the influence of psychic distance in firms’ performance (Evans and Mavondo, 2002). Stahl and Voigt (2008) have also considered organizational performance and synergy realization to assess the hazard of cultural differences in CBM&As performance. Griffith (2011) have used combined measures of international performance, such as the EXPERF scale (Zou and Stan., 1998) which combines three dimensions - financial, strategic and satisfaction - of exports to measure performance. Even though the concept of performance is ambiguous and may comprise many different outcomes of firms’ operations (Cording et al., 2010). Strategic management, international business and finance scholars often adopt the concept of financial performance to measure M&As (Venkatraman and Ramanujam, 1987; Meglio and Risberg, 2011). Financial performance includes market value of the firm and is commonly measured in terms of Cumulative Abnormal Returns (CAR) or Cumulative Average Abnormal Returns (CAAR) – event study methodology. According to Meglio and Risberg, (2011) the majority of the studies employed the event study method (e.g., Shelton, 1988; Wright et al., 2002; Chikh and Filbien, 2011).

Grounded in our review into how researchers measure M&As performance, we employed market-based measure for CBM&As performance. The cumulative abnormal returns (CARs) provide a realistic representation of the wealth effects in M&As (Stahl

and Voigt, 2008) and are calculated as the difference between the actual stock return and the return that would be expected given the performance of the market (Datta et al., 1992).

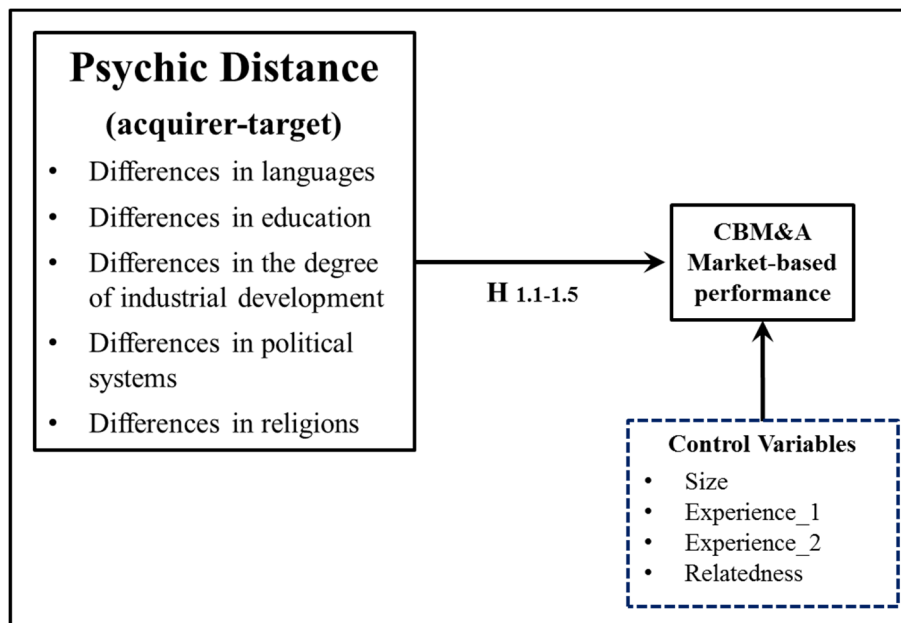
4.3 Conceptual model

As discussed in the psychic distance literature review, larger country psychic distance is expected for firms to involve in more difficulties. Therefore, firms select markets less psychologically distant, which allow them to gain experience in carrying out international operations generally and operations in a specific market particularly. With the purpose of minimizing risks and learning about customers, suppliers, bureaucratic procedures, exchange rates, taxation, customs barriers, and so forth, firms started to invest in countries with more favorable regulations, incentives, and developed institutions (Johanson and Vahlne, 1977; Xu and Shenkar, 2002; Dow and Karunaratna, 2006; Martín and Drogendijk, 2014).

According to Johanson and Wiedersheim-Paul (1975) the uncertainty about foreign markets is related to the psychic distance home-host countries. For instance, the psychic distance between Portugal and any given foreign market is determined by a number of factors such as level of development, level of education, business language, cultural differences, language and relationships of many kinds between the country of origin and the host. The greater the difference between such factors the greater the psychic distance between countries. A larger psychic distance will arguably lead to greater uncertainty in operating in those countries (Håkanson and Ambos, 2010; Dow and Larimo 2009). For instance, when a firm acquires a new firm in a different country the managers need to communicate with suppliers, customers, competitors and also with the political institutions. Thus, differences between countries, i. e, psychic distance, may increase the uncertainty and the cost of interaction and communication between firms and the environment (Hutzschenreuter et al, 2014). The more differences there are between the home country and host country, the less expected from CBM&As performance.

For a better understanding of the psychic distance hazards on CBM&AS performance we develop a conceptual model, depicted in Figure 4.1 below.

Figure 4.1 Conceptual model: Hypothesized impact of the psychic distance on CBM&A performance



Source: Developed for this paper

Firms operating abroad face hazards in international markets. Differences in languages, education, religion, industrial development and political systems (Johanson and Wiedersheim-Paul, 1975; Dow, 2000; Child et al., 2002; Dow and Karunaratna, 2006) arguably lead to social and economic costs. According to the Uppsala researchers Johanson and Wiedersheim-Paul (1975, p. 308) the sum of these factors that prevent or disturb the flows of information between firms and markets is the psychic distance. Firms prefer to do business in countries psychically closer, i.e., countries with similarity in respect to languages, religions, culture, level of education and political system and relented to select countries at larger psychic distance (Johanson and Wiedersheim-Paul, 1975; Dow, 2000; Brewer, 2007).

The impact of psychic distance on the CBM&As performance has been seen as negative since uncertainty becomes higher as the psychic distance between countries increases. (Evans and Mavondo, 2002; Dikova, 2009) Thus firms have more difficulties in gathering information about manage the M&As in the foreign market (Mayrhofer, 2004). Researchers suggest that greater psychic distance between two countries worse will be firm's performance in international markets (Child et al., 2002 and Ellis, 2008). According to Dow and Karunaratna (2006) psychic distance is an important factor of

firms' internalization behavior and managers must take into account the psychic distance when they decided to acquirer a firm in different country. Psychic distance influences how people perceived information. Large psychic distance led to misinterpretation and miscommunication and may result in an inadequate understanding of the foreign market. Psychic distance may increase the costs of manage CBM&As.

This combined with our early discussions on the definition of psychic distance and CBM&As, leads us to a first hypothesis:

Hypothesis 1: *Psychic distance will be negatively associated with the CBM&As performance.*

The next set of hypotheses follow the psychic distance stimuli of Dow and Karunaratna (2006). According to these authors the psychic distance between two given countries is determined by the differences in language; religion; industrial development; education and political system, colonial ties and time zone. Following Larimo (2011) we focused on differences in language; religion; industrial development; education and political system; we leave “colonial ties” due to the idiosyncrasies of our sample (all the acquirers are US-based and the US did not have any colonies) and also “time zone” since it was considered to have no significant predictive power under most circumstances (Dow and Karunaratna, 2006; Larimo 2011). Therefore using a multi-dimensional approach to psychic distance arguably allows to explain the differences between countries.

Differences in language among countries have received support from researchers (Johanson and Wiedersheim-Paul, 1975; Shenkar, 2001; Evans and Mavondo, 2002; Harzing, 2003; Dow and Karunaratna, 2006; Sousa and Bradley, 2006, 2008) as one of the barriers of doing business in the international markets. Managers that do not speak the same language will face difficulties in interpret and understand the information. The language similarity may explain the trade between countries and increase transaction risks and cost (Dow and Karunaratna, 2006). In CBM&As the differences in languages may advance additional problems due to the difficulties to successful integration of the human resources and communication with suppliers and institutions (Bjorkman et al., 2007). Thus, differences in language between countries tend be negatively associated with the CBM&As performance.

Hypothesis 1.1: *Differences in languages between countries will be negatively associated with the CBM&As performance.*

Differences in education levels between countries tend to increase the risks and uncertainties of doing business in international markets since these differences may result in uncertainty of understanding and communicating in the international markets (Dow and Karunaratna, 2006). Managers and workers with different education level may have difficulty working in a team and understanding the new methods of work of the firms resulting from CBM&As. The communication itself between the different hierarchical levels and within the same levels can be compromised and negatively influence the CBM&As performance.

Hypothesis 1.2: *Differences in education levels between countries will be negatively associated with the CBM&As performance.*

Different level of industrial development also affect communication and interaction in international markets. According to Dow and Karunaratna (2006) different level of industrial development may increase costs and uncertainty. For instance, differences in transportation and communication infrastructures that exist between countries with different degrees of industrial development, have a negative impact on firms' performance (Evans and Mavondo, 2002; Malhotra et al., 2009). According to Ghemawat (2001) the business models may be more easily to be transferred to countries with similar level of industrial development. An M&A between firms from different countries, i.e., a CBM&As may have a deficient performance by not being able to adapt to these differences. Thus the level of industrial development will be associated with CBM&As performance.

Hypothesis 1.3: *Differences in the degree of industrial development between countries will be negatively associated CBM&As performance.*

Differences in political systems include political stability and democratic character (Dow and Karunaratna, 2006). Firms from relatively stable countries and democratic political system may face political hazard because of the unstable and non-democratic host country government (Hutzchenreuter et al., 2014). According to Johanson and Vahlne (2009) political distance may decrease firm's performance since costs and uncertainty tend to increase in the international markets. Different level of political stability may yield uncertainty concerning the conditions of doing business and

manage the CBM&As in different governance system (Zurawicki and Habib, 2010). Thus the differences in political systems will be associated with CBM&As performance.

Hypothesis 1.4: *Differences in political systems between countries will be negatively associated with CBM&As performance.*

Differences in religion are related to cultural differences and have a huge influence on culture since religion affects the way people communicate and interact (Ghemawat, 2001; Blomkvist and Drogendijk, 2013; Ronen and Shenkar, 2013). According to Shenkar (2001) and Dow and Karunaratna (2006) religion differences are a factor of conflict between different countries and increase psychic distance hazard. Differences in religion may affect the way the workers, from the firm resulting of the CBM&A, interact. For instance the difference views of the Christian and the Muslim religion towards the role of men and women in society and business may affect the way of managing the CBM&As. The differences in religion may involve differences with regard to communication and interaction norms. Thus the difference in religion will be associated with CBM&As performance.

Hypothesis 1.5: *Differences in religions between countries will be negatively associated with the CBM&As performance.*

4.4 Methodology

The following section outlines the methodology used to test our hypotheses and understanding of the psychic distance hazards on CBM&AS performance. In this study we will perform an empirical study using the formative index based on five key dimensions of psychic distance stimuli taken from Dow and Karunaratna (2006) and Dow (2007). We collected data about CBM&As deals from Thomson Financials SDC Platinum database (SDC). Our sample comprises acquisitions of international firms by U.S. firms during the years 2005-2012. The SDC Platinum is commonly used in M&As research in strategy, international business, economics and finance (Aybar and Ficici, 2009; Ragozzino, 2009; Elango et al., 2013; Gaur et al., 2013).

4.4.1 Measures

4.4.1.1 Dependent variable

Event study (Cumulative Abnormal Returns)

In this study we used the standard event study methodology, as proposed by Fama and MacBeth (1973); Fama (1996) and Campbell et al. (1997) to examine acquirers' returns in U. S. CBM&As in the period surrounding the announcement of the deal. According to Kohli et al. (2012) event study allows scholars to scrutinize whether there are abnormal share price returns associated with an event and capture acquirers' value creation from CBM&As consistently (Zollo and Meier, 2008; Kohli et al., 2012). Most of the studies about CBM&As performance used the stock market event study (Campbell et al., 1997; Capron and Pistre, 2002; Shimizu et al., 2004; Schoenberg, 2006; Halebian et al., 2009; Gaur et al., 2013). According to Gubbi et al. (2010, p. 404) "event study methodology is relatively unbiased compare to other measures, and invariant to the differences in accounting policies across nations and those adopted by firms". Thus in this study we use the event study to measure the performance of the acquirers.

The event date in this study is the announcement day of the CBM&A operation. According to McWilliams and Siegel (1997, p. 636) the length of event window is "possibly the most crucial research design issue" since the event window should be as short as possible to enhance the power of the analysis and long enough to capture the full effect of the event. Taking this argument and the previous research on CBM&As (Campbell et al., 1997; André et al., 2004; Dos Santos et al., 2008; Zhu et al., 2010 and Gaur et al., 2013), this study used one relatively short event windows (-5, 5) and one relatively long event windows (-20, 20).

Following Campbell et al. (1997) and Prabhala (1997), the variables used in the market model are:

$$R_{i,t} = \frac{P_{i,t}}{P_{i,t-1}} - 1$$

$$R_{m,t} = \frac{P_{m,t}}{P_{m,t-1}} - 1$$

where $R_{i,t}$ represents the daily return of stock i on day t , $P_{i,t}$ refers to the closing price of stock i on day t , $R_{m,t}$ represents the daily return of the market on day t , and $P_{m,t}$ refers to the closed market index ratio on day t .

The rate of return on the share price of firm i on day t is explained by the rate of return of the market in the following regression:

$$R_{i,t} = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t}$$

where t represents the day measured relative to event, α_i represents the period intercept of firm i , β_i represents the risk coefficient (sensitivity of the market) of firm i , $R_{m,t}$ represents the rate return of the Standard & Poor's 500 (S&P500) Composite Index (a proxy for the market portfolio of risky assets). The random error of firm i on the sample event day t is ε_{it} , the return on firm i on day t is $R_{i,t}$.

Following the procedure outline in Campbell et al., 1997, McWilliams and Siegel (1997) and Capron and Pistre (2002) we used the market model to estimate the reaction on stock markets to the announcement of the acquisition, i.e., the event day or during an event window around the event day if the event (the M&A) had not occurred. In this study, the return is estimated by using a 262 daily observations minus the number of the window days. So we use 257 daily observations in models with a window of 5 days ($257=262-5$), or 242 daily observations in models with a window of 20 days ($242=262-20$), being, respectively, the estimation period from $t=-262$ to $t=-6$ or from $t=-262$ to $t=-21$, where $t=0$ is the event day.

The normal return is the expect value if the event did not take place and is measured by the return obtained with the market model (Campbell et al., 1997; Capron and Pistre, 2002). The abnormal return ($AR_{i,t}$) is the result of the acquisition announcement for firm i on day t thus equals the actual return minus the estimated normal return. Following Campbell et al. (1997), Zhu et al. (2010) and Gaur et al. (2013), the AR is calculated as follows:

$$AR_{i,t} = R_{i,t} - (\hat{\alpha}_i + \hat{\beta}_i R_{m,t})$$

where $AR_{i,t}$ is the abnormal return, i.e., the daily excess return of firm i for day t , t represents the day measured relative to the event, α_i and β_i represents the estimated OLS coefficients – intercept and slope - of firm i 's, using the market model for $R_{i,t}$ explained above. Then the daily abnormal returns are estimated for each day t for each firm i .

Following the procedure of Campbell et al. (1997) and Zhu et al. (2010) we computed the abnormal return (AR) and some average values by average abnormal returns (AAR), the cumulative abnormal returns (CAR) and cumulative average abnormal returns (CAAR) to better understand the abnormal return observations for our CBM&As sample of N firms. The daily average abnormal return (AAR_t) for each day t is calculated, considering one single day and all the sample n CBM&As, as follows:

$$AAR_t = \frac{\sum_{i=1}^N AR_{i,t}}{N}$$

The expected returns on the stock calculated from $AR_{i,t}$ during the two different event windows (-20, 20) and (-5, 5) are compared with the actual stock return observed on each day within the two different event windows. The cumulative abnormal return during the event window, i.e., the difference between the actual return and the expected return, sum up for m periods. In an equation, CAR_i is:

$$CAR_i = \sum_{t=1}^m AR_{i,t} , \text{ with variance } Var [CAR_i] = \sigma_i^2 = Var\left(\sum_{t=1}^m \hat{\varepsilon}_{i,t}\right)$$

So, for each CBM&A i , CAR_i is the cumulated abnormal return for m period considering 6 alternatives for m , which are 5 days before (or 20 days), 5 days after (or 20 days) and simultaneously the 5 before and the 5 days after the event day (or 20 days before and 20 days after).

The cumulative average abnormal returns (CAAR) is defined as the average of CAR over all the CBM&A operations, CAAR is estimated as:

$$CAAR = \frac{1}{N} \sum_{i=1}^N CAR_i , \text{ with variance } Var [CAAR] = \frac{1}{N^2} \sum_{i=1}^N \sigma_i^2$$

Then CAAR is the average over all the operations (N) of the cumulative (sum of m periods) abnormal returns.

We can calculate also standardized values of abnormal returns, meaning that the returns are corrected by standard errors, which are useful for hypothesis testing. Standardized CAR (SCAR) is defined as:

$$SCAR_i = \frac{CAR_i}{\sigma_i}$$

and average SCAR (ASCAR) is defined as:

$$ASCAR = \frac{1}{N} \sum_{i=1}^N SCAR_i$$

4.4.1.2 Independent variables

Psychic distance stimuli (PDS)

In this study we used the psychic distance stimuli (PDS) to the USA, which is based on the formative index based on five major dimensions put forward by Dow and Karunaratna (2006) and Dow (2007): differences in (1) language, (2) religion, (3) industrial development, (4) education and (5) political system. The Dow and Karunaratna (2006) scales cover up a huge variety of the factors usually associated with psychic distance (Evans and Mavondo, 2002 and Harzing, 2002, 2003). According to Dow and Karunaratna, (2006) and Dow (2007), the five dimensions of psychic distance stimuli can be defined as:

(1) Differences in languages - taking into account the two closest major languages for each pair of countries and the ability of the population to speak other major language of another country;

(2) Differences in religion – the distance between the two closest major religions and population that belong to the same religion in another country;

(3) Differences in industrial development – taking into account the difference between countries in nine dimensions (the difference in US\$ GDP per capita; the difference in energy consumption; the difference in the number of cars; the difference in

the % non-agricultural labor; the difference in the % urban population; the difference in the number of daily newspapers; the difference in the number of radios; the difference in the number of telephones and the difference in the number of televisions);

(4) Differences in education – taking into account the difference between countries in three dimensions (the difference in the % of literate adults; the difference in the % of population enrolled in 2nd level education and the difference in the % of population enrolled in 3rd level education);

(5) Differences in political system – taking into account two distinct dimensions. The degree of democracy that is measured by using three different scales (the difference in the POLCON V scale; the difference in the Modified POLITY IV and the difference in the Freedom House Political Rights scale) and the differences in political systems that worries the political ideology of the group in power. This is measured by using one scale (the difference in Beck's Political Ideology).

Following Dow and Ferencikova (2010), the psychic distance stimuli (PDS) index represented the aggregate PDS distance (the five dimensions) of the two acquisition parties. Algebraically:

$$PDS_j = \sqrt{\sum_{i=1}^5 (I_{ij} - I_{il})^2}$$

Where:

- PDS_j is the psychic distance stimuli difference for the jth country to the USA;
- i is fixed and relative to the USA;
- I_{ij} PDS's score: ith PDS dimension for the jth country.

4.4.1.3 Control Variables

In this study, following the previous research on CBM&As, we control for the most commonly used variables since firm-specific variables - dimension, operations/experience in international business - lead to different performances in international markets. Different firms deal with risk and uncertainty in different ways. Hence the hazard of psychic distance depends on those specifications. We used the following control variables:

Size - Specifies bidder firm's size as measured by three different variables: the natural logarithm of the firm's total assets, sales and number of employees (see for

example Ahammad and Glaister (2013). We take into account the acquirer size as a control variable because according King et al. (2004) and Moeller et al. (2004) acquirer size shows the firm's ability to obtain economies of scale and scope that may provide the acquirer with higher returns. (Houston and Ryngaert, 1994; King et al., 2004; Moeller et al., 2004). Larger firms are likely to achieve a better performance simply due to their size (Finkelstein and Halebian 2002). This information is obtained from SDC database;

Relatedness - Following the procedures of Morosini et al. (1998), the relatedness of the CBM&A will be measured based on the industry of the acquirer and the target firms. If a database indicates that the two firms are in the same industry, the CBM&A receives a score of 1. If a database indicates that the two firms are from different industries, the CBM&A receives a score of 0. This information is obtained from SDC.

Experience_1 – The previous experience in conducting CBM&A may affect the firm's value since prior experience in performing CBM&A helps firms to better understand all the CBM&A process and employing them to future deals (Levitt and March, 1988) and eventually avoiding or overcoming problems. Taking into account the learning theory perspective, firms experienced in CBM&As are more likely to engage in new CBM&As since acquirer firms learned from previous CBM&As (Nadolska and Barkema, 2007).

Takes the value of 1 if the acquirer has performed other CBM&A deal in the 5 years preceding the time of the CBM&A announcement, and 0 otherwise. This information is obtained from the SDC.

Experience_2 – The previous experience in conducting M&A in the target country influences the firm's perceived risk because it may decrease the liability of foreignness and therefore firm value (Eden and Miller, 2004; Zhu et al., 2010). Albeit each CBM&As may be different, firms with previous experience in the target country will decrease the hazard by increasing the knowledge about a specific market. According to Vermeulen and Barkema (2001) firms will develop target country-specific routines and capabilities that may help the firms manage the M&A process. Takes the value of 1 other CBM&A deal in the target country in the 5 years preceding the time of the CBM&A announcement and 0 otherwise. This information is obtained from the SDC.

4.4.2 Data and procedure

4.4.2.1 Sample and descriptive statistics

Our sample consists of 415 announced and completed CBM&As from 2005 to 2012 by U.S. publicly traded firms. A sample of over 400 observations is arguably large enough to satisfy the assumptions of normality (Gubbi et al., 2010), which have been argued to be critical concern in event study methodology (McWilliams and Siegel, 1997). We obtained the both the firms' and CBM&As operations' data from Thomson Financials SDC Platinum database. The SDC Platinum database comprises mergers and acquisitions of international firms and U.S. firms since 1990. Between 1990 and 2008 SDC had 187,841 M&As recorded, totaling \$ 7.54 trillion and 56,978 CBM&As totaling \$ 2.21 trillion. The SDC database collects information from over 200 English and foreign language news sources such as trade publications, newswire reports, proprietary surveys of investment banks, law and advisor firms, the Wall Street Journal, Reuters, Financial Times and other newspapers and press releases to assemble a robust and comprehensive listing of acquisition activity (Chari et al., 2004; Uhlenbruck, et al., 2006; Bhagat et al. 2011). The SDC is commonly used in M&As research in strategy, economics and finance (Ragozzino, 2009) since the SDC provides us with several essential characteristics about each M&A. Information on M&As include variables such as whether the operations were friendly or hostile, whether there was a cash purchase of shares, the date on which the transaction was announced and the date on which the transaction became effective. The SDC database also provides information about the acquirers and targets – for example name, industry sector, primary SIC and nation. This database represents one of the most comprehensive sources of information on CBM&As (Ragozzino, 2009; Zhu et al., 2010). We also used *Datastream* database to retrieve the firms' stock prices and the S&P500 index data to compute the returns.

To define the sample we followed the previous research, specifically the procedures put forward by Andre et al. (2004) and Fee and Thomas (2004) – (1) The transaction must be completed, (2) exclude public utility firms (SIC code 4900–4999), public administration (SIC code 9000–9999), (3) exclude the financial institutions (SIC code 6000–6999) from our sample since these industries are profoundly regulated, (4) the acquirer and target are from different countries, (5) the acquirer is publicly traded; (6) and where both the acquirer's and the target's nation are known, (7) acquires and

target must be in one of 120 countries/areas that are in Douglas Dow's Psychic Distance Stimuli (PDS) database (Dow, 2007), (8) both the acquirer's and the target's *Datastream* code are known, to allow for reliable stock return data available for calculations' acquires' abnormal return (AR) and cumulative abnormal return (CAR) attributable to CBM&As announcements, (9) CBM&As announcement dates must be between 2005 and 2012. Finally, we exclude observations all the offshores countries (according to the International Monetary Fund classification – see appendix 1), to avoid including “shell” operations. Our final sample consists of 415 unique acquisitions from US acquirers and 26 different target nations. Tables 4.2 and 4.3 present an overview of the descriptive statistics of the sample. As shown in the table in table 4.3 most of the US acquirers acquisitions are in the developed countries (i.e., countries belonging to the OECD): United Kingdom with 124, Canada with 106 and Australia with 32 M&As represent more than 50% of all acquisitions. Only 4 acquisitions are targets in Africa and 8 acquisitions in South America. The average sum involved in each deal is 256,3 million USD and the last three years (2010-2012) represent around 45% of the number of operations.

Table 4.2 M&A from USA - descriptive statistics per year

Year of Transaction	Mean	Sum	Standard Deviation	Number of M&As	% of M&As
2005	220,681	3.530,9	254,296	16	3,86%
2006	258,339	4.650,1	331,807	18	4,34%
2007	681,059	11.578,0	2172,521	17	4,10%
2008	106,732	8.431,8	265,481	79	19,04%
2009	376,625	21.091,0	1535,812	56	13,49%
2010	285,168	21.102,4	663,431	74	17,83%
2011	264,734	21.178,7	652,542	80	19,28%
2012	197,612	14.820,9	366,585	75	18,07%
All	256,347	106.383,8	844,550	415	100,00%

Note: Mean and sum values in millions of USD.

Table 4.3 M&A from USA - descriptive statistics per country of destination

Target Nation	Mean	Number of M&As
Argentina	35,485	3
Australia	184,060	32
Bolivia	6,490	1
Brazil	33,323	2
Canada	329,588	106
Colombia	289,934	1
Denmark	398,934	10
Ecuador	6,595	1
Finland	59,040	2
France	108,193	30
Germany	439,963	25
Greece	619,893	1
India	250,161	20
Italy	142,439	10
Japan	252,602	14
Mexico	43,025	8
Morocco	35,000	1
Namibia	235,000	1
New Zealand	8,019	1
Poland	153,678	2
Portugal	22,526	1
Russia	67,175	4
South Africa	1084,448	2
Spain	159,292	5
Taiwan	219,248	8
United Kingdom	469,207	124
All	323,758	415

Note: Mean values in millions of USD.

4.4.2.2 Procedures

We use several models to ascertain the impact of psychic distance on cumulative abnormal returns of U.S. firms following a CBM&As. We test our hypotheses (following Campbell et al., 1997) using weighted least squares (WLS) estimators (Buckley et al., 2007 and Zhu et al., 2010).

Since the observations are cross section (different CBM&As) we should account for the diversity of firms included in the sample in financial capacity, dimension, number of employees, dividend policy, industry and so forth. Therefore, according to Gujarati and Porter (2010) and Greene (2011) the observations specificity could be dealt

with considering heteroskedasticity, meaning we do not use the classical hypothesis of constant variance. Therefore, we assume heteroskedasticity where the variance is different in each observation and is dependent of the firms' dimension, i.e. $Var(\epsilon_i) = \sigma^2 Z_i^2$. In this study, the dimension variable (Z_i) is the sales volume of the acquirer.

The Weighted Least Squares (WLS) method weighs each observation with the inverse of the standard deviation (in this case, the acquirer net sales variable). Under this specific pattern of heteroskedasticity the WLS method produces efficient estimators (with higher precision of estimation) as well as unbiased and consistent (Gujarati and Porter, 2010; Greene, 2011).

The first regression, with control variables is as follows (Model 1):

$$CAR_{(-20,20)} = \beta_0 + \beta_1 Related + \beta_2 Exp_{Aq} + \beta_3 Exp_{Country} + \beta_4 Size + \varepsilon$$

Our second regression equation with PDS variables is as follows (Model 2):

$$CAR_{(-20,20)} = \beta_0 + \beta_1 Related + \beta_2 Exp_{Aq} + \beta_3 Exp_{Country} + \beta_4 Size + \beta_5 PDS_{Lang} + \beta_6 PDS_{Rel} + \beta_7 PDS_{Ind} + \beta_8 PDS_{Edu} + \beta_9 PDS_{Pol} + \varepsilon$$

Our third regression equation with PDS index is as follows (Model 3):

$$CAR_{(-20,20)} = \beta_0 + \beta_1 Related + \beta_2 Exp_{Aq} + \beta_3 Exp_{Country} + \beta_4 Size + \beta_5 PDS_{index} + \varepsilon$$

To assess the robustness of our results and analyze eventual differences in the short-term and the long-term effects, we repeated the procedure and used the same independent variables changing the event window of the dependent variable, using an event window (-5, 5). These three models are Models 4 to 6.

4.5 Results

Table 4.5 reports descriptive statistics (the means and standard deviations of the variables, as well as the correlation coefficients) of the dependent, independent, and control variables. A close observation of the correlations between independent variables confirm no multicollinearity issues arise. The strongest correlations is -0,8164 between the variables differences in education level (6) and differences in the degree of industrial development (5), which is the only coefficient over 0.60 in absolute value. All

other correlations present a low coefficient differences indicating no adverse effect in the models.

Table 4.4 reported the event study variable names and labels and the table 4.6 displayed the Cumulative abnormal returns (CAR) and the Standardized cumulative abnormal return (SCAR) for our sample.

Table 4.4 Event study variable name label

Variable name	Variable label
CAR _(-5, 5)	Cumulative abnormal returns of 5 days prior to, the day of and 5 days following CBM&A announcements
CAR _(-20, 20)	Cumulative abnormal returns of 20 days prior to, the day of and 20 days following CBM&A announcements
SCAR _(-5, 5)	Standardized Cumulative abnormal returns of 5 days prior to, the day of and 5 days following CBM&A announcements
SCAR _(-20, 20)	Standardized Cumulative abnormal returns of 20 days prior to, the day of and 20 days following CBM&A announcements

Table 4.5 Means, standard deviations and correlation coefficients of variables

	Mean	Std. dev.	1	2	3	4	5	6	7	8
1 PDS index	5.6793	1.5513	1.0000 --							
2 Differences in languages	2.4458	1.6681	0.004525 0.9291	1.0000 --						
3 Differences in education levels	0.3596	0.3876	-0.039109 0.4418	-0.57492 0.2580	1.0000 --					
4 Differences in the degree of industrial develop.	1.6925	0.4828	0.012267 0.8094	-0.287252 0.0000***	-0.8164 0.0000***	1.0000 --				
5 Differences in political systems	1.8849	0.3659	0.066794 0.1886	-0.269260 0.0000***	-0.396749 0.0000***	0.467073 0.0000***	1.0000 --			
6 Differences in religions	0.6528	0.6834	0.29399 0.5632	0.106468 0.0358**	0.527761 0.0000***	-0.499224 0.0000***	-0.199856 0.0001***	1.0000 --		
7 CAR (-5, 5)	0.023337	0.01241	0.034810 0.4936	0.43101 0.3966	-0.051727 0.3089	0.030533 0.5482	0.018582 0.7149	-0.059144 0.2445	1.0000 --	
8 CAR (-20, 20)	-0.027067	0.025923	0.019117 0.7070	-0.192971 0.0001***	0.060614 0.2330	-0.001518 0.9762	0.023836 0.6393	-0.068228 0.1793	0.208476 0.0000***	1.0000 --

*Significant at 10% l.s. (level of significance); **Significant at 5% l.s.; ***Significant at 1% l.s.

Table 4.6 Cumulative abnormal returns (CAR) and Standardized cumulative abnormal return (SCAR) for CBM&As announcements

Cumulative Abnormal Return (CAR)			Standardized Cumulative Abnormal Return (SCAR)		
Event Window	Means	t-tests ^a	Event Window	Means	t-tests ^a
CAR _(-5, 5)	0.023337	1.878918*	SCAR _(-5, 5)	1.152303	3.075533***
CAR _(-20, 20)	-0.027067	-1.043931	SCAR _(-20, 20)	-0.123970	-2.502770**

*Significant at 10% l.s.; **Significant at 5% l.s.; ***Significant at 1% l.s.

^a t-test testing the null hypothesis that the mean of abnormal returns is zero

The sampling probability distributions for test of the average of CAR and SCAR are approximately normal (Campbell et al., 1997). The results on table 4.6 show the tests of $CAR_{(-5,5)}$, $CAR_{(-20, 20)}$, $SCAR_{(-5,5)}$, $CAR_{(-20, 20)}$ and $SCAR_{(-20, 20)}$. Concerning $CAR_{(-5,5)}$ and $SCAR_{(-5,5)}$ tests show the average accumulated return is statistically significant (Significant at 10% level of significance (l.s.)) in both cases but also significant at 5% and 1% in SCAR statistics), supporting the most immediate reactions of investors close to the operation date. $CAR_{(-20, 20)}$ and $SCAR_{(-20, 20)}$ show only statistically significance for SCAR statistic (Significant at 5%), whereas the $CAR_{(-20, 20)}$ statistics are not significantly different from zero.

The interpretation of these results should consider that the statistics are averages and thus hide the diversity of behaviors among the 415 CBM&As. Therefore we may conclude the effects on accumulated returns are visible in the short term (the period from five days before until five days after the operation), whereas the longer period (-20, 20) the statistical results do not allow a conclusion.

We ran several models with the dependent variable – CBM&A Performance. Table 4.7 presents the results of these analyses. We jointly test the hypotheses to scrutinize the conceptual model put forward (Fig. 4.1) to. The control variables Size, Related and Experience in acquisition are significant in the three models, and Experience in acquisition country is also significant in model 2.

Model 2 includes as independent variables the five items of the PDS, which allow us to test hypotheses 1.1 to 1.5. We found Differences in languages to be negatively related to acquisition performance with a coefficient of -0.022963 (Significant at 1%), allowing us to support Hypothesis 1.1. Differences in education levels have been found to be negatively related to acquisition performance with a coefficient of -0.175739 (Significant at 1%) thus supporting Hypothesis 1.2. Differences in political systems have also been found to have a negative impact with a coefficient of -0.079096 (Significant at 5%) thus supporting Hypothesis 1.4. As for the impact of Differences in the degree of industrial development and Differences in religion on CBM&As performance, they have not been found significant and thus we may not support Hypotheses 1.3 and 1.5.

Model 3 allows us to test the PDS index which considers the five items simultaneously. PDS index is found to be negatively – quite strongly – associated to CBM&As performance with a coefficient of -0.44523 (Significant at 1%). Therefore, as predicted by Hypothesis 1, psychic distance is negatively associated to CBM&As performance.

Models 4 to 6 analyze the short-term effect of psychic distance. The five items of the PDS are not found to be significant (Model 5) thus not supporting Hypotheses 1.1 to 1.5 in the short-term. However the psychic distance stimuli index is found to be significant with a coefficient of -0.029669 (Significant at 1%) (Model 6) thus supporting Hypothesis 1 also in the short-term.

Table 4.7 Regression analysis: Determinants of Psychic distance on CBM&A performance (CAR -20, 20)

Variable	Model 1		Model 2		Model 3	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
PDS index	-	-	-	-	-0.44523	0.0000***
Differences in languages	-	-	-0.022963	0.0001***	-	-
Differences in education levels	-	-	-0.175739	0.0000***	-	-
Differences in the degree of industrial develop.	-	-	0.053201	0.1010	-	-
Differences in political systems	-	-	-0.079096	0.0376**	-	-
Differences in religions	-	-	-0.008059	0.6433	-	-
Size	0.027684	0.0000***	-0.016530	0.0000***	0.033750	0.0000***
Related	0.147320	0.0000***	0.049531	0.0007***	0.057146	0.0002***
Experience in acquisition	0.59025	0.0000***	-0.035666	0.0002***	0.054248	0.0000***
Experience in acquisition country	0.005309	0.7675	0.051409	0.0000***	0.021200	0.1917
N° observations	390		389		388	
Adjusted R-squared	0.682315		0.883674		0.744789	
Log likelihood	-61.48938		136.8519		-18.63737	
F-statistic	168.0964		295.7457		189.2320	
Prob (F-statistic)	0.000000		0.000000		0.000000	
Akaike info criterion	0.346099		-0.647054		0.132151	
Schwarz criterion	0.407117		-0.534973		0.203613	
Hanna-Quinn criter	0.370287		-0.602620		0.160485	

*Significant at 10% l.s.; **Significant at 5% l.s.; ***Significant at 1% l.s.

Table 4.8 Regression analysis: Determinants of Psychic distance on CBM&A performance (CAR $_{-5, 5}$)

Variable	Model 4		Model 5		Model 6	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
PDS index	-	-	-	-	-0.029669	0.0013***
Differences in languages	-	-	0.021280	0,1979	-	-
Differences in education levels	-	-	0.013025	0,8745	-	-
Differences in the degree of industrial develop.	-	-	0.097207	0,3067	-	-
Differences in political systems	-	-	0.006382	0,9543	-	-
Differences in religions	-	-	-0.024803	0,6272	-	-
Size	0.030081	0.0000***	0.008697	0,2605	0.034243	0.0000***
Related	0.058005	0.0146	-0.052087	0,2215	-0.001845	0.9509
Experience in acquisition	0.008506	0.6836	-0.029025	0,2945	0.005143	0.8038
Experience in acquisition country	-0.012944	0.0381**	0.006429	0,8455	-0.002657	0.9348
N° observations	390		389		388	
Adjusted R-squared	0.146726		0.182147		0.167439	
Log likelihood	-294.2580		-281.9680		-287.9670	
F-statistic	14.37823		9.641275		13.97181	
Prob (F-statistic)	0.000000		0.000000		0.000000	
Akaike info criterion	1.539784		1.506262		1.520448	
Schwarz criterion	1.600802		1.618343		1.591910	
Hanna-Quinn criter	1.563972		1.550696		1.548782	

*Significant at 10% l.s.; **Significant at 5% l.s., ***Significant at 1% l.s.

4.6 Discussion and conclusions

Firms do business in an increasingly heterogeneous, complex and uncertain environment (Johanson and Valhne, 2009; Azar and Drogendijk, 2014). The uncertainty arises from the differences in the international business environment, namely the home-host differences at several levels. The differences between countries may be measured from several perspectives and call for a multidimensional construct which permits gaining a more accurate portrayal of the differences. The psychic distance construct includes factors such as differences in language, religion, education, industrial development, and political systems (Johanson and Wiedersheim-Paul, 1975; Shenkar, 2001; Dow and Karunaratna, 2006; Dikova, 2009; Dow and Ferencikova, 2010) and may be operationalized using the psychic distance stimuli (PDS) developed by Dow and Karunaratna (2006). The psychic distance stimuli covers an extensive range of factors that may potentially affect the CBM&As performance. In our study we used the PDS to scrutinize the impact of psychic distance hazard on CBM&As performance, using a sample of 415 CBM&As operations by U.S. bidder firms that acquired non-U.S. target firms between 2005 and 2012.

The purpose of this study was to break down the psychic distance stimuli (PDS) developed by Dow and Karunaratna (2006) and test the effect of each dimension on CBM&As performance. Arguably this may produce more specific findings on the importance of the different variables of psychic distance rather than just testing for the psychic distance as a whole. Furthermore, we were interested in testing PDS effects on the CBM&As, focusing specifically on their effects on the CBM&As performance. Lastly, as the increasing speed of globalization is supposedly causing cultures to converge, we aimed at testing whether or psychic distance is still an important question in the second decade of the twenty first century.

Our findings confirm that psychic distance has a negative impact on CBM&As performance (thus broadly supporting Hypothesis 1). Both the aggregate index (Model 3) and three individual items (differences in language, education and political systems - Hypothesis 1.1; 1.2, 1.4) of the five items of the psychic distance stimuli (Model 2) have a significant impact on CBM&A performance. Our findings confirm that differences in language are still an issue as a potential source of problems when dealing with international acquisitions. According to Usunier and Lee (2005) language

differences are a central obstacle to conducting business abroad, hindering the development of relationships between the different partners in a CBM&As and the ability to exploit opportunities. Thus, the managers' ability to speak foreign languages is a central issue and may increase the understanding on the foreign market and decrease the psychic distance hazard on CBM&A (e.g. Evans and Mavondo, 2002). Our findings are therefore consistent with past research from Evans and Mavondo (2002), Dichtl et al. (1990) and Holzmüller and Kasper (1990), who found that the ability to speak other languages decreases the psychic distance hazard.

Our study also supports that differences in education levels hinder the CBM&As performance (Hypothesis 1.2). The education level has been posited to influence the individual's foreign orientation (Child et al., 2002). The managers' foreign orientation arguably influences the desire to operate abroad, either by exporting or other entry modes (Dichtl et al., 1990), as well as the openness to other cultures (Child et al., 2002) and may thus increase the overseas performance. The educational level has also been suggested to impact psychic distance: as the level of education increases the psychic distance decreases (Holzmüller and Kasper, 1990). Thus, differences in education level may affect the relationships between firms from different countries and may cause difficulties in the transfer of information and knowledge. The post-CBM&A integration may also have additional challenges, if firms face an increased difference in educational levels (Palmer and Barber, 2001). Our findings are consistent with past research on differences in political systems (e.g. Henisz and Williamson, 1999), which confirm differences in political systems may decrease the CBM&As performance (Hypothesis 1.4). Firms will face further political hazards caused by different taxation, regulation systems and property rights legislation (Henisz and Williamson, 1999). Differences in political systems may thus be a source of uncertainty that increase the costs of the operation (Delios and Henisz, 2003). Our results are also consistent with Brewer (2007) and Dow and Karunaratna (2006) that argued that low political difference between the acquirer and the acquired firms' countries are expected to reduce the psychic distance. Greater differences in political systems may obstruct the flow of information and knowledge transfer, thus reducing CBM&A performance (Dow and Karunaratna, 2006; Brewer, 2007).

In this study, we controlled for size, type of CBM&As (related or unrelated), experience in acquisitions and experience in acquisition in the country. The results indicated the three first control variables have a positive effect on CBM&As performance. Our results are consistent with previous research, which support that CBM&A performance increases as the size of the firms involved in M&A also increases (Seth, 1990a; Barkema and Vermeulen, 1998): larger firms typically provide brands with high awareness, leaders in their markets and economies of scale, thus having a higher potential to generate synergies (Seth, 1990a; Barkema and Vermeulen, 1998). Our results on firms' relatedness are also consistent with those of Salter and Weinhold (1979), Lubatkin (1983), Datta (1991) and Morosini et al. (1998) which argued that related M&As perform better than unrelated ones. Our results regarding experience in acquisition are also consistent with previous research, which posited that firms with experience in acquisitions are likely to develop routines through experience to support future acquisition processes (Zollo, 1998; Halebian et al., 2006). Moreover, previous acquisition experience in the focal country is posited to improve the CBM&As performance, since firms gain knowledge on the target country idiosyncrasies (Barkema and Vermeulen, 1998).

Table 4.9 presents a summary of the hypotheses we put forward in this study and of the empirical conclusions we have obtained.

Table 4.9 Summary of hypotheses and empirical conclusions.

Hypotheses	Expected sign	Empirical conclusions
H 1: Psychic distance will be negatively associated with the CBM&As performance.	-	Supported
H 1.1: Differences in languages between countries will be negatively associated with the CBM&As performance	-	Supported
H 1.2: Differences in education levels between countries will be negatively associated with the CBM&As performance	-	Supported
H 1.3: Differences in the degree of industrial development between countries will be negatively associated CBM&As performance.	-	Not supported
H 1.4: Differences in political systems between countries will be negatively associated with CBM&As performance.	-	Supported
H 1.5: Differences in religions between countries will be negatively associated with the CBM&As performance.	-	Not supported

Several theoretical contributions stem from the core findings to mergers and acquisitions and distance literature. First, this study uncovers the importance of analyzing the different variables of a psychic distance construct including differences in languages, political systems, education, religion and industrial development to CBM&As performance. Particularly, highlighting the importance of analyzing each of the different variables individually and not only as a single construct. Second, not all the differences in psychic distance stimuli are significant: only the differences in language, education and political systems have been found to negatively impact CBM&As performance, whereas differences in religion and differences in industrial development have not been found to be significant. Third, we uncover a different impact of PD on CBM&A performance in short-term and long-term: in the short-term there is a statistically significant negative impact whereas in the long-term no effect is statistically significant. Fourth, examining the effects of psychic distance on CBM&As performance provides new insights into hazards' sources influencing CBM&As performance, hence providing contributions to the M&A literature.

From a managerial perspective, our findings are also relevant. Contrary to what might be expected, psychic distance still matters: psychic distance impacts CBM&As performance and should be accounted for when undertaking those operations. Also, psychic distance is a multidimensional construct and its analysis should be done not only as a whole, but also for each individual dimension, as they pose different challenges managers have to deal with. For instance, language barriers are relevant, even nowadays when we tend to consider English as a *lingua franca*, since a large number of managers do not understand nor speak English. Thus, differences in language arguably hinder CBM&As performance and may have an impact on managerial practice in general. Differences in education level also have an impact on the management of CBM&As and on their performance. Therefore, managers should pay special attention to their training in order to facilitate the transfer of knowledge and information. The training is also relevant to reinforce the experience effect, as in the long-term (i.e. after the CBM&A operation) the acquired experience arguably dilutes the negative impact of PD. By and large, this study reinforces the importance of training and hiring managers with multicultural perspective when conducting a CBM&As.

4.7 Limitations and future research

Arguably one of the main limitations of this study is the event study methodology. Although being widely used and able to detect the performance effects, its explanatory power is limited (Zollo and Meier, 2008). The methodological limitations have an impact in our results as the event window $CAR_{(-20, 20)}$ presents non-significant results – a limitation previously acknowledged in the literature (e.g. Madhavan and Prescott, 1995). On the other hand, event study methodology cannot accurately isolate long-term effects on financial performance (Capron and Pistre, 2002) thus may not be employed to analyze the effects of psychic distance on the long-term CBM&As performance. Future research may overcome this limitation using alternative performance measures, such as financial measures (e.g. return on sales (ROS), return on equity (ROE) and return on assets (ROA)). Nevertheless, using financial measures is also problematic, especially in CBM&As, since there are different accounting conventions that may bias the results (Hitt et al., 2001). Future studies may also use organization performance measures (e.g. attainment of M&A goals and number of patents) to grasp another perspective of PD impact on CBM&A performance.

Another limitation of our study is the analysis perspective we selected. We considered 415 CBM&A operations in 26 target countries from the same country (USA). Thus we have only examine PD in on direction (from the USA to 26 other countries). Since PD is asymmetric (Luo and Shenkar, 2011; Håkanson and Ambos, 2010; Shenkar et al., 2008) further research may test the model from both directions (i.e. firms acquired in the USA). Therefore, future research may benefit from using a broader approach to confirm and extend our study's findings, namely the asymmetric effect of PD, thus offering a better understanding of the psychic distance impact on CBM&A performance.

Finally, the context we selected for our sample may also be a limitation. The acquirer firms' country is the USA, a developed country and a significant number of operations are performed in Anglo-Saxon countries. Nevertheless, other countries' firms are becoming increasingly relevant in cross-border activity and may be worth investigating. For instance, emerging countries are increasingly important in the market for corporate control: for example, the value of Chinese CBM&As stood at \$185 million dollars in 1991; in 2011, that number reached \$34.4 billion (UNCTAD, 2012).

Future studies may address the impact of psychic distance on CBM&A from and to emerging market economies, such as Brazil, China or India, since these countries have specific business contexts which may pose firms additional challenges.

4.8 References

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Chapter 5.

Conclusion and contribution to extant knowledge

Investigating the effect of psychic distance on CBM&As performance involved different steps which contributed to the extant literature. We developed this doctoral dissertation in three stages which provided an incremental understanding of the psychic distance hazards on CBM&As performance: first, we reviewed the internationalization literature to ascertain the existing theoretical approaches and identify the most relevant one in IB literature. Second, based on the findings of the first study, we developed a parsimonious conceptual model to analyze the impact of PD on CBM&A performance, scrutinizing the individual perceptions of PD. Finally, we performed an empirical study to partially test the model advanced in the second essay to assess the impact of the different dimensions of psychic distance on CBM&As performance. The different stages have allowed to develop an incremental understanding psychic distance's aspects which are most relevant to CBM&As performance.

In the first essay, we performed a systematical exploratory review of the literature using bibliometric techniques. Thus we are able to offer a methodical overview of the internationalization theories. We present and discuss various aspects such as the different approaches impact, prevalence over time and the dominant intellectual connections. The first essay is arguably useful for IB novices, since it allows taking stock of what is known in internationalization research, namely since we broadly present possible paths for further research. This essay also presents a large amount of data on the extant internationalization research that may be used to identify gaps for further research and to better understand the intellectual structure of international business research. Furthermore, this study marks a reference point that allows understanding the evolution and use of the different internationalization approaches. It is worth mentioning the importance of uncovering the networks linking authors and theories using co-citation networks. The first essay also paved the way for the remainder of the dissertation, by identifying the most influential internationalization perspective, the Evolutionary Model. Building on two key constructs of the Evolutionary Model – psychic distance and the establishment chain – we proceeded to investigate the impact of psychic distance on CBM&A performance.

In the second essay, we delved on managers' perceptions of PD and seek to understand their effect on CBM&As performance using Dow and Karunaratna's (2006) psychic distance dimensions (psychic distance stimuli). Therefore we contribute to the current understanding of psychic distance impact on managers' actions as we propose a parsimonious conceptual model integrating the managers' perception of PD on CBM&As performance. Our conclusions follow Sousa and Bradley (2008) and Dow and Karunaratna (2006), among others, which call for the need to take into account managers' perceptions of psychic distance when operating abroad, as examining only national differences provide an insufficient understanding of the challenges an international firm faces. In fact, being aware of managers' psychic distance perceptions and understanding its effect may contribute to develop a competitive advantage, as this may be considered an organizational capability.

In the third essay, we perform an empirical study of 415 CBM&A between 2005 and 2012 to partially test the conceptual model developed in the second essay. We employed an event study methodology to analyze the hazards of the psychic distance on CBM&As performance using stock market performance of the acquiring firms. This essay's contributions to extant IB literature are fourfold: 1) uncovering the relevance of understanding the different dimensions of psychic distance stimuli on CBM&A performance; 2) identifying the relative effect of each dimension on CBM&A performance – not all the dimensions matter equally and the psychic distance stimuli construct may mask the effect of each dimension; 3) uncovering the different effects of PD on CBM&A performance in the short-term and the long-term; 4) extending the extant knowledge on M&As' challenges, specifically CBM&As, by assessing the effects of psychic distance on CBM&As performance.

The contributions to the extant IB literature of this doctoral dissertation as a whole we daresay go beyond the intrinsic contributions of each of the three essays. It pioneers in offering a parsimonious conceptual model explaining the relation between psychic distance and CBM&As performance by incorporating the different dimensions of psychic distance put forward by researchers such as Dow (2000), Evans and Mavondo (2002), Pedersen and Petersen (2004) and Dow and Karatunara (2006). The conceptual model is grounded in a literature review and further reinforced with five explorative interviews. This study calls out the need for firms to do more research, to plan and try

harder to understand the differences between countries since those differences still matter, unlike what has been stated (e.g. Sttotinger and Schlegelmilch, 1998). The psychic distance concept is not irrelevant and its influence has not decreased as one might have believed given the growing interaction between countries as a consequence of the deepening of the market globalization process.

The present study also attempted to take a deeper look and shed light on unanswered questions such as the impact of managers' perception of psychic distance CBM&A performance and which dimensions of psychic distance may be perceived as most influential on CBM&As performance. We also investigated if managers' background and M&As experience in the target country moderate the effect of psychic distance hazards. Our findings are the first step toward understanding of the managers' perception of PD on CBM&As performance.

Our study also contributes to the ongoing debate on the critical role of the PD level of analysis. The psychic distance is an individual, firm and national-level concept. Therefore, the PD construct has been used to study aspects of international management on all levels. This study thus reinforces the need to prudently and clearly establish the level on which PD is researched. It is not enough to analyze differences at a national level: it is necessary to analyze them at the individual level since the individuals, i.e., the managers, make the decision and are influenced by their PD perceptions.

This study also represents one of the first attempts to incorporate psychic distance into the M&A literature. Considerable research has examined cultural distance index put forward by Kogut and Singh (1988) on CBM&A (e.g Stahl and Voigt, 2008). The Kogut and Singht (1988) cultural distance index, based on Hofstede's (1980) dimensions, of is may not be the most suitable index to assess the impact of cultural differences in performance CBM&As, once it disregards the difficulty of measuring dimensions such as language, religion, political and legal systems (Dow, 2000).

Another important contribution concerns the different effects of PD over time. Our findings support there is a significant impact of PD on CBM&A performance only in the short term whereas in the long term no effect was found. We are led to speculate the reason the effect of PD on CBM&A dilutes over time is the local market knowledge managers gain. Thus as time passes the perception of PD reduces and the effect of PD decreases.

Managerial implications

The managerial contributions we offer to practitioners may be summed up in “differences still matter”. We identified the challenges which arise from psychic distance, especially differences in languages, education and industrial development systems, distinguishing a negative effect on CBM&As performance. We also uncovered a difference between short-term and long-term effects of PD on CBM&A performance, suggesting PD negative dilutes over time. Thus international managers should account for the home-host differences and incorporate the differences in their analysis upfront, especially taking into account the time factor. In fact, even in markets perceived as psychically close, the differences may also hinder operations’ success (namely the performance of a CBM&A). We also posit the development of cross-cultural competencies as a means to overcome the negative impact of psychic distance, namely by hiring local managers that may pass their knowledge on local idiosyncrasies.

Another important managerial implication is recognizing psychic distance as multidimensional: different dimensions should be taken into account when performing a CBM&A. One puzzling conclusion of our study was the relevance of language barriers today. Despite a significant number of managers disregarding the differences in languages when acquiring a firm abroad, our results confirm differences in language have strong negative impact on CBM&A performance. Education level differences are also relevant to CBM&A performance. Combining these findings we call attention to the importance of managers’ having a multicultural perspective and cross-cultural competencies which may arguably improve CBM&A performance.

Limitations and future

The limitations of this dissertation are inherently related to methods used in each essay. In the first essay, we may identify some limitations arising from the journals’ sample selection and the data source used (the *ISI Web of Knowledge*). Although our sample includes top IB journals, other journals may also publish research delving into internationalization. Also, despite *ISI Web of Knowledge* lacking a comprehensive coverage of journals – especially IB journals – arguable the most relevant and highly considered journals are covered in *ISI Web of Knowledge*. The second essay also has some limitations due to the firms’ selection for the interviews. The five firms selected may be considered relatively homogeneous since they are all financially robust, and

managed by Portuguese managers. Nevertheless, the insights stemmed from the exploratory are arguably important to reinforce the theoretical propositions. The limitations of the third essay are threefold: on one hand, the event study methodology has limited explanatory power. Nevertheless, this method is widely used when investigating M&As performance and it is considered the most robust technique for assessing post-deal performance. On the other hand, there are only acquirer firms from one country in our sample (USA), thus we are only able to analyze one direction of PD (assuming PD asymmetry). Finally, despite the sample comprising a large number of operations in a significant number of countries (CBM&A operations in 26 target countries), operations from other countries – namely emerging countries – may offer a more comprehensive perspective of PD hazards.

The future research perspectives may be organized in two main categories. On one hand, methodological issues may be addressed to overcome the identified limitations. On the other hand, we may also point out some avenues for future development of extant IB knowledge. Hence, we present a brief summary of the future research, since some of the avenues put forward in our essays were followed in other essays.

From a methodological perspective, we may overcome the limitations of the first essay by augmenting the sample to include other outlets (e.g. proceedings, books, doctoral theses) and other indexing services, thus producing more robust findings. Also, we may use other statistical techniques which allow for a better understanding of the extant knowledge and the current state of the art. The third essay's limitations may arguably be overcome by employing alternative performance measures, such as financial or organizational measures – despite the challenges posed by such measures. Furthermore, using a larger sample to test the empirical model (more operations and more acquirer countries) may improve the understanding of the psychic distance impact on CBM&A performance, namely analyzing both directions of PD.

Going beyond methodological issues, we also put forward several research avenues. The first essay suggested the most relevant perspective used to investigate internationalization was the Evolutionary Model. We followed this path in the subsequent essays as we delved on psychic distance, a key determinant of the entry mode in foreign markets sequence. The second essay calls out the need for analyzing possible disagreements between theory and practice uncovered in exploratory

interviews as there may have some opportunities to further develop theory. On the other hand, we followed the suggestion to empirically test the conceptual model put forward in the second essay and it was partially tested in the third essay. The third essay also suggests the relevance of understanding the impact of psychic distance on CBM&A from and to emerging market economies, since these countries have idiosyncratic characteristics which may be different from Western-based firms (namely US firms).

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Appendixes

Appendix A

Appendix A. Offshores countries and territories from IMF

Country/Territory	Code	Country/Territory	Code
Andorra	AD	Latvia	LV
Anguilla	AI	Lebanon	LB
Antigua and Barbuda	AG	Liechtenstein	LI
Aruba	AW	Luxembourg	LU
Bahamas	BS	Macau	MO
Bahrain	BR	Malaysia	MY
Barbados	BB	Malta	MT
Belize	BZ	Marshall Islands	MH
Bermuda	BM	Mauritius	UM
Botswana	BW	Monaco	MC
British Virgin Islands	VG	Montserrat	MS
Brunei	BN	Nauru	NR
Cape Verde	CV	Niue	NU
Cayman Island	KY	Panama	PA
Cook Islands	CC	Saint Kitts and Nevis	KN
Costa Rica	CR	Saint Lucia	LC
Curaçao	CW	Saint Vincent and the Grenadines	SV
Cyprus	CY	Samoa	WS
Czech Republic	CZ	Seychelles	SC
Dominica	DM	Singapore	SG
Gibraltar	GI	Sint Maarten	MF
Grenada	GD	Switzerland	CH
Guernsey	GG	Turks and Caicos Islands	TC
Hong Kong	HK	United Arab Emirates	AE
Ireland	IE	Uruguay	UY
Island of Man	IM	Vanuatu	VU
Jersey	JE		